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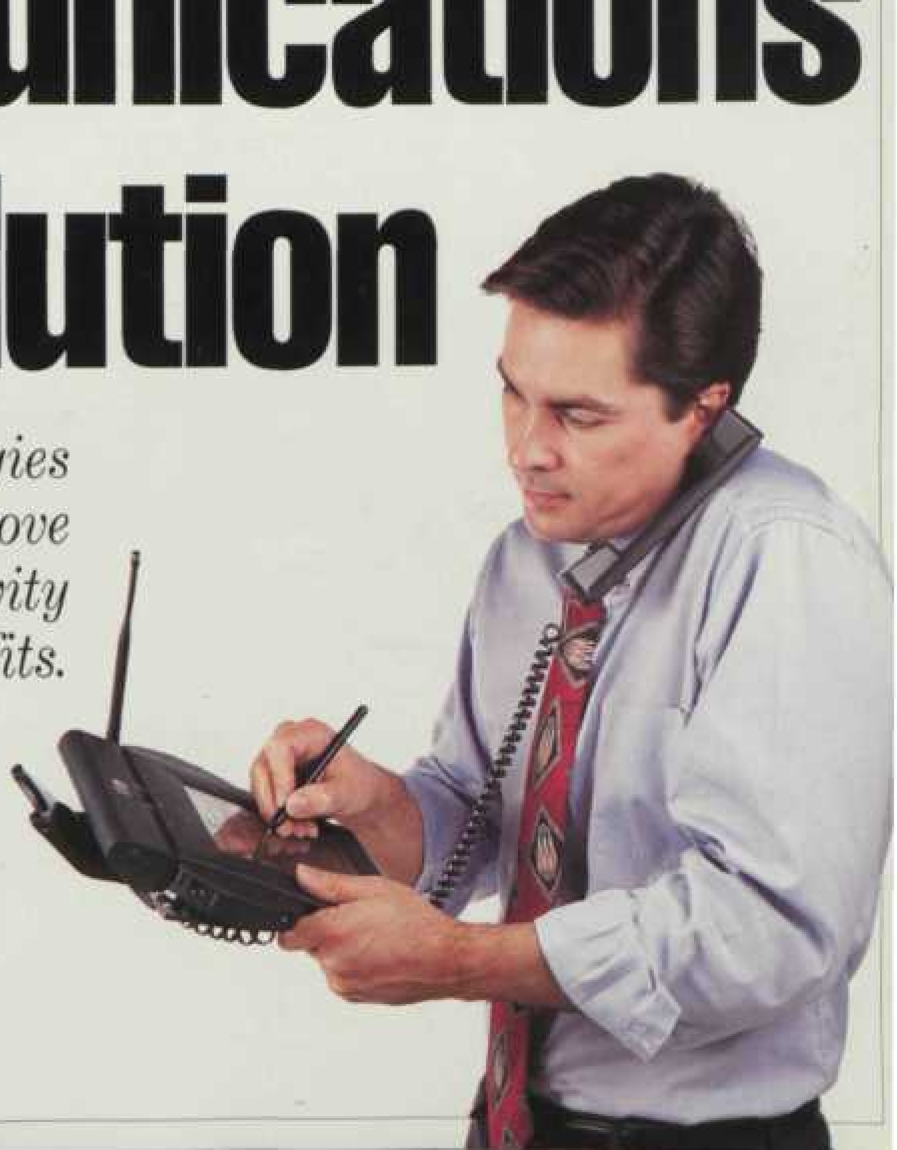

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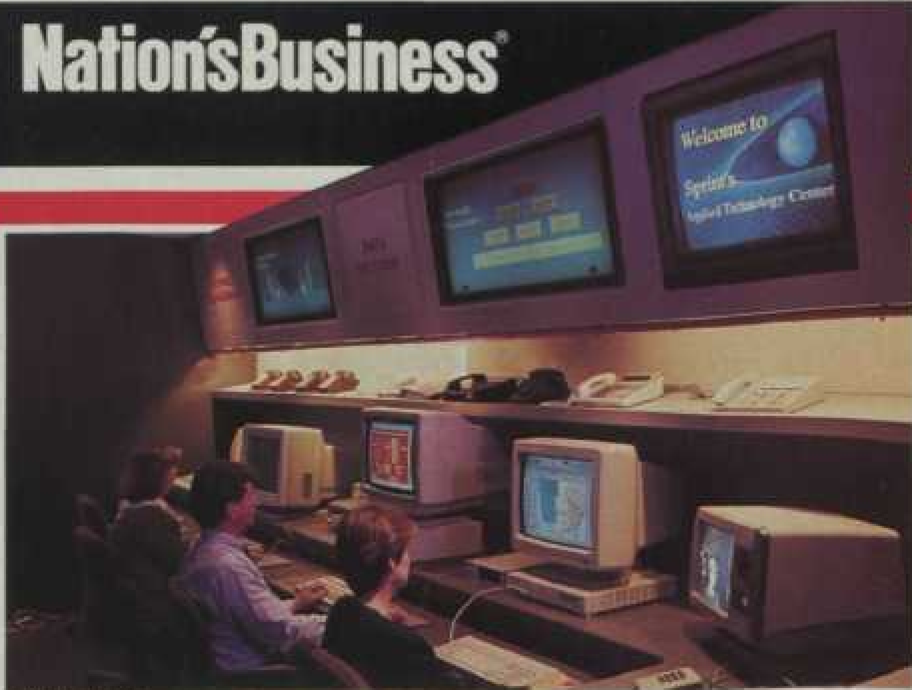

PHOTO: T. MICHAEL KEZA

The expanding revolution *in communications is unfolding in facilities such as the Sprint Applied Technology Center, in Washington, D.C. The time for small companies to prepare for the new technology is now. Cover Story, Page 20.*

PHOTO: JIM MENDENHALL

On-the-job *education programs help employees improve their English skills. The Workplace, Page 68.*

VOL. 81, NO. 5

Editor's Note

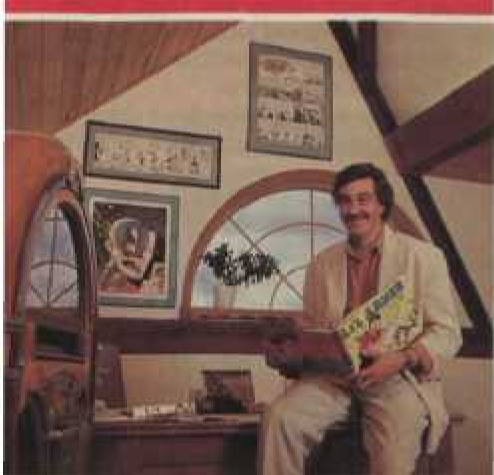

PHOTO: T. MICHAEL KEZA

Comic-book publisher *Denis Kitchen reissues memorable characters. Making It, Page 14.*

DEPARTMENTS

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An Ongoing Revolution

ILLUSTRATION: ©THE BETTMANN ARCHIVE

It was certainly a revolution in communications—a device that would carry the human voice over wires. The public turned out in large numbers to witness demonstrations of service, such as the one illustrated, in which Alexander Graham Bell inaugurated a telephone link between Boston and Salem, Mass. The impact of the telephone on the business and social life of America was profound, a major step in the series of communications/transportation developments that helped to unify a vast nation.

We now are going through another such breakthrough that is dramatically altering the way we share information, and it's the subject of this month's cover story, beginning on Page 20. This report will show you how this revolution will affect the way you do business. This is not only information that you need today, it's a look into the future.

We also deal in this issue with another aspect of communication with an immediate application. You should be aware that the Federal Communications Commission has issued a regulation requiring that telephones in workplaces with 20 or more employees must be hearing-aid compatible by May 1, 1993. It's one of those little-publicized rulings with a big impact. One expert calls it a "stealth regulation." We're providing the details, on Page 72, so that it doesn't turn into a serious problem for you; the penalty for violations can range to $75,000.

The story of the explosion at the New York World Trade Center has long since faded from the media, but the problems it caused for businesses there continue. Firms incurred substantial, unexpected costs in moving to other quarters. Those that suffered the least financially were those with business-interruption insurance. The enormous losses incurred as a result of the New York explosion have spotlighted this particular type of coverage. The article beginning on Page 38 discusses business-interruption insurance and provides guidelines to obtaining it for your company. It's a timely report.

Robert T. Gray

Robert T. Gray
Editor

Letters

Germany's Apprentice System: Adapting It To U.S. Needs

It was with great interest that I read recently your article that described the German apprentice system ["Training Workers For Tomorrow," March]. I would like to provide you with more information about the German apprenticeship system and about our successful experiences in establishing similar programs here in the U.S.

Can the German apprentice system be established in the United States, and if so, how can this be achieved?

First, the system cannot simply be copied. It must be determined which aspects of the system can be sensibly adapted to the existing structure of education in the United States.

Second, pilot studies should be done.

Third, governmental dollars will initially contribute to a highly promising start. However, the major issue to be faced is the cooperation and commitment of the business community.

In Germany, the principal responsibility for overseeing the apprentice system lies not with the Federal Labor Agency but with local chambers of commerce.

The German American Chamber of Commerce (GACC) has close relations to many U.S. and German member-companies throughout the U.S., and it has contacts with leading American educational institutions.

GACC Educational Services is spearheading a project that is examining the adaptability of the German apprentice system here in the U.S.

We are convinced that U.S. apprentice programs based on the proven models of Germany will be a success to personnel development for American business. We would be happy to provide any interested company or person with more detailed information.

Viktor Hock
Director
GACC Educational Services
New York

Tallying The Results Of Enterprise Zones

The feature on enterprise zones [Cover Story, February] was interesting indeed. I am puzzled, though, as to why the article focused on New Jersey and Utah, where the results in terms of jobs created seems modest and relatively inefficient, as compared at least with Illinois.

What, pray tell, have they been doing in Illinois to generate more than 262,000 jobs? Why isn't—or wasn't—that part of the story on enterprise zones?

Edward R. Ames, DVM, Ph.D.
American Veterinary Medical Association
Schaumburg, Ill.

[Editor's Note: The distinction should have been made in our story and in our accompanying map between "jobs created" and "jobs retained." A total of 183,272 jobs in Illinois, or nearly 70 percent of the figure for that state, are jobs that enterprise-zone officials there regarded as retained—not lost to other areas—because of Illinois' 90 enterprise zones. While keeping jobs from fleeing certainly has merit, we felt that the job-creation function was more to the point of zones—and of our story. We felt that New Jersey and Utah, while their overall numbers are smaller than that of Illinois, effectively demonstrated that point through their greater number of jobs created.]

Getting Tough Is Hard To Do

"Ways To Curtail Employee Theft" [April] states: "Many companies are too lenient with workers who steal." I would invite the author to try to bring criminal charges against an employee and see what kind of reception he receives from the district attorney's office.

I am president of an automotive-related business. I had an employee who we had reason to suspect was stealing from the company's inventory.

The assistant district attorney repeatedly called for more and more time-consuming detail from us to go forward with the indictment process. Finally she admitted she was having great difficulty getting her office to prosecute. She explained it was because the employee, by job description, had access to the inventories in question and because inventories are not an exact science.

In spite of these objections, we ultimately did get an indictment from the grand jury. We had third-party corroboration from a purchaser of the stolen

goods as to the identity of the seller of the goods. Shortly before the trial date, the charges were dropped because of "lack of evidence."

Although I would attempt to prosecute again given the same circumstances, I can readily see why people might forgo the attempt to prosecute rather than end up feeling like the accused instead of the victim.

Dan D. Stevens
Tulsa, Okla.

Nursing-Home Residents Do Not Lose Their Homes

"Helping Elderly Parents Tap Their Home Equity" [It's Your Money, March] offers helpful tips to your readers, but one statement deserves clarification.

It is true that when someone requires nursing-home care, it is the individual's responsibility to pay for the cost of care with available resources. But equity from the sale of a home is not "taken over by the nursing home to pay the bills" in the callous way you describe. Once a nursing-home resident's available resources have been depleted, the individual will qualify for Medicaid.

Certain assets, including the person's home, are not counted in determining Medicaid eligibility. While cash taken out of a home's value would be considered a resource subject to "spend down" before Medicaid eligibility could be established, a person's home would never be seized to ensure nursing-home payment.

This is particularly important if there is a spouse still living at home or if the nursing-home resident is to be discharged home after a short stay for rehabilitative care.

Sheldon L. Goldberg, President
American Association of Homes for the Aging
Washington, D.C.

[Editor's Note: The item in question referred to an arrangement under which elderly parents sell their home to their children and lease it back, retaining the cash from the sale. A potential problem was cited: Proceeds from the sale could be taken over by a nursing home to help pay the bills, but "the nursing home could not get at the equity" if the parent or parents still owned it. There was no reference in the item to seizure of a home to ensure nursing-home payment.]

Prying Out Information On SBA-Backed Loans

You have written about various ways for small-business people to raise funds, including loans guaranteed by the Small Business Administration.

But did you know that it is almost impossible for a prospective borrower to obtain information on that SBA program?

In applying for an SBA-guaranteed loan, my son incurred costs for appraisals, accounting services, and the time he invested. If he had been able to obtain advance information, he would have realized that SBA discriminates against transactions between close family members. The loan was rejected because the business in question would have been purchased from the applicant's father-in-law.

I would hope that SBA would make this policy more readily available so that prospective buyers would not incur costs making applications that conflict with SBA policy.

James E. Crandell
Scobey, Mont.

PHOTO: SAM PICKERELL—FOUO, INC.

Applying *for a loan can be costly.*

A Key Point About Key Protection

"Key People, Key Protection" [March] makes an important point with regard to the alternative minimum tax (AMT) and the potential loss of benefits.

It should be noted that AMT applies to regular corporations; readers whose companies are Subchapter S corporations will have no AMT exposure.

However, sources quoted in the article neglected to mention a potentially disastrous tax exposure. Often, the largest (or only) "key-man" policy is on the life of the majority owner. The tax code provides that the value of the insurance will be included in the owner's estate. (Own the company, and you own what it owns for estate-tax purposes.) Depending upon total estate size, the loss to taxes may exceed 50 percent.

The solution is probably not to buy more insurance to pay the taxes insurance creates but to work with a professional to restructure policy ownership.

Russell E. Rosenberger Jr.
CIGNA Individual Financial Services Co.
Springfield, Mass.

There They Go Again On Capitol Hill

Congress is off to a lousy start!

Can you believe it? Congress returns with more than 100 new faces, and right off the bat they vote to exempt themselves from another law! They rushed to pass the Family and Medical Leave Act, and President Clinton rushed to sign it. But when all was said and done, only business was saddled with this law, because Congress exempted itself.

If Congress thought family leave was so important for business, why didn't the lawmakers think their own employees deserved the same treatment? The answer is quite clear: A majority in Congress believe they are above the law.

Congress' holier-than-thou attitude is what created the House bank scandal. Sadly, that kind of thinking continues today. It's a disgrace!

After the 1992 elections, you would have expected members of Congress to change for the better. Exempting themselves from one of the first laws passed does not indicate any kind of change at all. They are as self-serving as ever.

Christopher P. Hitchcock
Solon, Ohio

An Idea For Rebuilding The U.S. Economy

I have a suggestion to help restore the U.S. economy: Encourage entrepreneurs from other countries to establish small businesses in U.S. communities hard hit by the recession.

One approach would be to require these businesses to hire an American citizen for every foreign worker employed. The out-of-country entrepreneurs and workers would have resident alien status after three years of sustained employment.

This type of program would create jobs, produce additional tax revenues from the businesses started, and attract immigrants with hands-on working experience.

D.P. Hanney
Steadfast International, Inc.
Cherokee Village, Ark.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*


MAIN & COMPANY

Entrepreneur's Notebook

By Heida Thurlow

A Spirit That Never Gives Up

In the late 1970s, my company, Chantal Cookware Corp., had some unusual marketing strategies. Our product was sold almost exclusively in cities served by Eastern Airlines. And on the weekends, excess inventory was sold at an upscale flea market in suburban Houston.

You might wonder how a company could survive doing such things. The fact was that I made those moves just so that it would survive.

Anyone who tries to build a business from nothing faces obstacles, but those roadblocks are almost never a reason to call it quits. If you have a terrific idea or product and a strong belief in yourself, your troubles become challenges requiring creative solutions—like unusual marketing tactics.

Eastern Airlines (now out of business) used to sell a deeply discounted ticket for almost unlimited travel throughout the airline's route system for up to three weeks. That ticket enabled me to visit specialty shops anywhere I could get an interview, as long as they were in cities served by Eastern.

Then, by selling overstocked cookware at the flea market, I made \$400 to \$600 a weekend, which I used to finance a part-time secretary, a one-room office, and a copier. I did that for two years, until my company started turning a profit.

Such tactics were hardly what I envisioned when I set out on my own, but I was determined not to give up. I moved to the United States from Germany in 1971 and started in business by selling hand-painted dinnerware from Argentina. In the mid-1970s, I imported unglazed clay roasters from Germany and was developing what would become Chantal's line of cookware.

When the import business foundered, I pursued jobs in mechanical engineering, which had been my field before I came to the U.S. No one hired me, and I went back to the cookware business. I never again considered giving up.

PHOTO: [illegible] B. HOWELL

Heida Thurlow: *An unwavering belief*

Chantal's product is enamel-on-steel cookware, with a patented design for a stainless-steel handle that stays cool, and with tempered-glass lids rimmed in stainless steel. Even after coming up with the design, I had trouble getting the product made. The manufacturer in Germany told me it could put only plastic handles on my high-grade cookware—not the stainless I requested.

The manufacturer didn't want to change its way of doing things; I was determined to get the product done my way. Today, Chantal imports pots from Germany, handles from Scandinavia, and lids from Japan, and puts them together in Houston.

I was absolutely convinced from the start that I had a superior product and that people would buy it. Unfortunately, I had no idea how to make that happen. I had to figure out the right way to market the product, the right niche for the company, and the best way to help retailers sell our cookware.

Helping retailers sell has become a very important part of our business. While the company was in its infancy, we were perfecting the demonstrations that highlighted our product and attracted buyers for department stores and specialty shops. Those efforts have paid off. Today, Chantal is profitable on sales of about \$10 million a year and has more than 40 employees.

But success doesn't mean an end to obstacles, it just provides more options for solving problems. In my case, I was diagnosed in 1986 as having cancer. I couldn't just drop out of the business, so I took care of whatever I could a few days each week, even as I was undergoing chemotherapy and radiation treatments.

Had my illness occurred a few years earlier, the company would have been finished. Instead, Chantal was at the crossroads where a company turns from an entrepreneurial venture into a managerial business. Employees were increasingly in charge of everyday management. They simply refused to give up, because they believed in the product and the company.

Thankfully, the cancer is in remission. The company continues to have controlled growth. We still face challenges—such as fluctuating exchange rates—but we are determined to overcome them. And while Chantal's strategy for meeting challenges won't involve flea markets, it will involve the same traits that underlie the success of this or any other entrepreneurial venture—an unwavering belief in the product and in the people who make it, coupled with a spirit that never gives up. NB

Heida Thurlow is president and owner of Chantal Cookware Corp., in Houston. She prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

The longer you, as an entrepreneur, push on, the more you discover about running your own business, and the more you know, the greater your chance for long-term survival.

You Wouldn't Send Your Executives Out In Leisure Suits.

The first rule of business has always been: Dress for success. Which is why it seems only prudent to consider a Lexus LS 400 or ES 300 as your next company car.

Not only will their sleek lines make an immediate impression, but features like a 250-horsepower V8 engine,* four-wheel anti-lock brakes and energy-absorbing crumple zones will continue to impress down the road.

Yet where there's style, there's substance. For instance, we blanket every LS 400 and ES 300 with a comprehensive 4 year/50,000-mile limited warranty** with 24-hour Roadside Assistance. You also have the knowledge that Lexus has been rated the luxury-car leader in retained value.†

To hear more impressive details, simply dial 800-772-FLEET. A gentleman in a well-tailored, double-breasted, worsted English-wool suit will be happy to take your call.

LEXUS
The Relentless Pursuit Of Perfection.

Managing Your Small Business

Looking to the future from a distance; puncturing myths about minorities; saying thanks for good work.

PLANNING

Think Ahead, Set Goals, And Get Out Of The Office

Thom Wellington, president of Wellington Environmental Consulting and Construction Inc., in St. Louis, says three things made 1992 a great year for the firm:

- Setting concrete one-year goals;
- Outlining realistic five-year goals; and
- Discussing and setting those goals at a site away from the office—which Wellington says is perhaps the most important point of all.

Fast-growing companies can perish if they don't plan carefully, says Wellington, so his managers keep a rein on the firm's rapid expansion by articulating specific goals.

Establishing goals trains employees to track various trends in the company and the industry, he says, and as a result, "we're way ahead of many little companies that don't plan or do research."

For one-year goals, the firm sets objectives in each department, and 80 percent of the company's 1992 goals were met: The accounting department was reorganized so that it can be more flexible, for example; 20 percent of corporate clients were new business; two more engineers joined the staff; and the company moved into a new building that has room for expansion.

Goals for 1993 include more cross-training of staff members and developing a sales-training program.

Realistic five-year goals are in place, Wellington says, but they are "not as specific." For 1998, the firm has begun projecting the number of employees it will have, its sales in millions of dollars, and its requirements for office and warehouse space, trucks, and equipment.

Above all, Wellington says, setting goals contributes to "unbelievable" employee-retention rates. "It gets everybody here going, because we all know what the company goals are."

Wellington managers have also found that the firm's annual planning meeting is far more productive when it is held away from the company's headquarters. It's not far, however—just down the road at the offices of Wellington's accounting firm. An off-site location offers psychologically neutral ground for employees to be "much more candid," says Wellington.

—Bradford McKee

PHOTO: ©LARRY SHERRON

Goal-setting meetings *are best when, like this one, they're held away from the office, say executives of Wellington Environmental Consulting and Construction, in St. Louis.*

MARKETING

Helping Customers Avoid "Shoppers' Paralysis"

Helping customers make purchasing choices can be easier for small firms than for larger companies, says consumer-trends expert Judith Langer, president of Langer Associates, Inc., a New York market research firm.

"While [customers] do not seem interested in returning to the world of restricted alternatives, consumers seem to be seeking guided choices," writes Langer, editor of the *Langer Report*, a newsletter for marketers. "This means informed assistance in choosing from a selected array of options."

Nation's Business asked Langer how small-business owners might offer guided choices. She made these suggestions:

- If your customers are individuals, obtain information about them, such as their personality, lifestyle, or physical needs. If they are companies, find out the size and type of their business and what their special needs are. You can gain this information through informal questionnaires. Having such facts enables you to help customers make final decisions.
- Educate your salespeople. Langer says that shoppers often complain that salespeople are not knowledgeable or helpful. Customers want salespeople who can tell them why they should pay $100 more for a particular athletic shoe, or why one sofa is $1,000 and another is $5,000.
- Help customers narrow the options to a few that apply to them by asking how the product will be used. For example, if a woman is looking for a chair, find out what room it's for and who is most likely to use it. If the chair is for a husband who is 6 feet 4 inches tall, she may need a bigger chair than the one she's looking at.

Langer says such questions leave customers "pleased that somebody's taking the time to understand the context."

For information about the *Langer Report*, contact Langer Associates, Inc., 19 W. 44th St., Suite 1601, New York, N.Y. 10036; (212) 391-0350.

—Sharon Nelton

Disposing Of Some Myths About Selling To Minorities

Many businesses fail to reach minority markets because the firms don't learn enough about the culture and language of their target customers, says marketing and research consultant Mariangel Rodriguez. As vice president of specialty markets for M/A/R/C Inc., in Dallas, she

advises businesses to watch out for these prevailing myths about the two fastest-growing groups, Hispanics and Asians:

Myth No. 1: Different subcultures can be mixed in the same message. An ad featuring a Spanish dancer, Mexican music, and Cuban food will turn off all three groups, says Rodriguez. And although there is only one Spanish language, there are several dialects; marketers should know which ones are spoken by their target buyers. Similarly, there are many different Asian subgroups, all speaking different languages.

Myth No. 2: Language translation is a minor consideration. Companies often treat this as an afterthought, getting high-school students or inexperienced employees to translate text for brochures and advertisements, says Rodriguez. This can result in ineffective campaigns or even major gaffes.

Ignore the myths *about marketing to minorities, says Mariangel Rodriguez.*

Myth No. 3: The product is already selling in Central America, so a separate minority campaign in the U.S. isn't needed. Minorities living in the U.S. have a different outlook and lifestyle and will respond only to a marketing approach tailored to them. When marketing to minorities, Rodriguez advises, ask foreign-language newspapers, radio, and TV stations to help with the message and the language. And consider small advertising or marketing groups that specialize in minority marketing. Research efforts, including focus groups and one-on-one interviews, can be customized for small businesses at a reasonable cost, she says.

—Roberta Maynard

EMPLOYEE INCENTIVES

Saying "Gracias" On The Spot

When employees of Hacienda Mexican Restaurants go out of their way to serve a customer or to help one another, they may find themselves rewarded instantly with some "Hacienda Bucks." Each buck, printed in orange and green, is worth $1 in food or beverages at any of the company's 11 locations—nine in Indiana and one each in Michigan and Ohio.

"Our approach is to recognize people for doing things well as opposed to finding fault," says William Shannon, chairman and co-founder of the South Bend, Ind., company.

Hacienda initiated its employee-recognition program in 1992 as part of a program called "Guest Obsessed." And it works. Shannon says business was up 9 percent last year, a record year for the $16 million company.

Employees not only are rewarded with Hacienda Bucks but also are recognized in the company's newsletter, *Taco Talk*.

Exemplary work may be spotted by supervisors or identified by "mystery shoppers." The company has hired an outside firm whose people pose as customers and report back on good employees.

In addition, Shannon and other company officers carry Hacienda Bucks with them when they visit the restaurants, handing them out on the spot when they see an employee doing well.

The recognition program applies not only to hosts, waiters, and others who deal with the public but also to those behind the scenes, such as food preparers who make the plates look appetizing and dishwashers who make sure the coffee cups are spotless.

Says Shannon: "It really makes you feel proud to be able to tell people, 'Well done.'"

—Sharon Nelton

NB TIPS

The Latest On Workers' Comp

The 1993 edition of *Analysis of Workers' Compensation Laws* is available from the U.S. Chamber of Commerce. The book contains more than 235 changes that were made in state workers' comp laws last year.

The 56-page analysis includes summaries of workers' comp laws in all 50 states, the District of Columbia, U.S. territories, and the Canadian provinces.

The cost of the paperback book (Order No. 0338) is $15 for U.S. Chamber members, or $25 for nonmembers. The annual supplement (Order No. 0339), which will bring laws up to date as of July 1, 1993, will be available in the fall and will cost $7 for members and $10 for nonmembers. Orders for the analysis and supplement may be combined.

Credit-card orders may be placed by calling 1-800-638-6582 between 9:30 a.m. and 4:30 p.m. Eastern time. In Maryland, call 1-800-352-1450. Quantity discounts are available. To order by mail, write to the U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062. Specify the publication number, and make checks payable to the U.S. Chamber of Commerce.

Cash-Flow Strategies

Business owners who need help with day-to-day cash-flow strategies might benefit from Thomas Morton's *Cash Flow Letter Book for the Small Business*. The text consists almost entirely of sample letters and telephone scripts covering a variety of circumstances involving both inflow and outflow of cash. Morton suggests specific language to use when extending credit, outlining payment schedules, and sending invoices.

Morton also recommends ways to communicate with lenders when renegotiating credit terms or advising them of late payments or other financial problems.

The 191-page book, which comes with an IBM-compatible 5¼-inch disk, costs $59.95. To order, call John Wiley & Sons at 1-800-225-5945.

Drug-Law Guide

The *1993 Guide to State Drug Testing Laws* offers a road map to help private employers comply with state and local drug-testing laws. Each state is summarized separately. The summaries cover specific types of drug testing, testing procedures, employer exposure to criminal and civil liability, statutory and regulatory citations, and summaries of significant court decisions.

The 132-page book, written by attorneys Mark A. de Bernardo and Benjamin W. Hahn, is available for $65 from the Institute for a Drug-Free Workplace. Call (202) 842-7400.

Bookkeeping Made Easy

If you're doing your own accounting and can't afford a full-time bookkeeper, you may find the help you need in *Step-by-Step Bookkeeping: The Complete Handbook for the Small Business*, by Robert C. Ragan. In his newly revised book, Ragan, a certified public accountant, offers a record-keeping system specifically for small businesses.

Included is advice on setting up records, tracking sales and cash receipts, preparing monthly financial statements, handling general ledgers and balance sheets, and computing depreciation of property and equipment. A chapter is devoted to tips on sales, income, and payroll taxes. Also included are charts, sample documents, and federal tax forms.

The 134-page paperback is available in bookstores or by calling Sterling Publishing Co., in New York, at (212) 532-7160. The cost is $7.95. NB

Dateline: Washington

Business news in brief from the nation's capital.

EDUCATION

Clinton Describes Goals For Education And Training

President Clinton chose the headquarters of the U.S. Chamber of Commerce, in Washington, to launch the administration's efforts to create more-effective worker education and training programs. Steps toward that goal, he said, will include building on successful programs already under way at the local level.

The April 13 event was a satellite teleconference sponsored by the Chamber and the Department of Education. In addition to the president, it featured Education Secretary Richard W. Riley and Labor Secretary Robert B. Reich. The teleconference was broadcast to about 3,000 communities nationwide; viewers could phone in questions to the president and the two cabinet secretaries on their worker training and education plans.

Referring to the administration's long-term goals, Clinton said that "we want to abolish the dividing line between what is work and what is learning" by making education and training more relevant to the workplace.

A critical element in achieving that goal will be a major administration-crafted education bill expected to be introduced in Congress "shortly." The president said: "We want to set up a framework for excellence," not mandate what should be done at the local level. "And we want to be sure employers have a heavy amount of influence in these programs."

Reich noted that most of the jobs created in this decade will not require four-year college degrees. With that in mind, the administration wants to put more emphasis on developing pathways from high school to the training required for those jobs. "We want to develop national skills standards that will be recognized by employers as worker credentials," he said.

Reich and Clinton both emphasized that the administration wants to build on the successful local-level models already preparing students effectively for the workplace.

(An article about worker training and education initiatives will appear in the June *Nation's Business*.)

PHOTO: DENNIS BRACK—BLACK STAR

President Clinton, *Labor Secretary Reich, left, and Education Secretary Riley discuss their education and training goals at a teleconference at the U.S. Chamber.*

BENEFITS

Administration Backs Private Health Care

The Clinton administration is committed to health-care reform that relies on the private sector rather than government control, says Donna E. Shalala, secretary of health and human services.

"We are committed to containing runaway costs while expanding coverage and providing security to families and businesses—not next year or the year after, but right now," Shalala told a business audience at the U.S. Chamber of Commerce, in Washington. "And we are committed to doing that by working with a private system as opposed to substituting a public system."

Shalala noted that rising health-care costs have hit small companies particularly hard. In 1991, one-third of all small-business owners experienced health-insurance premium increases of over 25 percent.

Said Shalala: "That's a one-way ticket to bankruptcy. These galloping costs translate into lower wages and reduced benefits for employees, higher prices for consumers, and, in the long run, weakened American companies and a higher deficit. Runaway costs will ruin our economy and will wreck our national future. We have to do better, and with your help we will."

While unable to reveal any details of the administration's health-reform plan, Shalala praised the Chamber for its newly adopted health-reform guidelines. "We are pleased that the Chamber has expressed support for the concept of enabling consumers to band together in large groups to increase their health-insurance purchasing power," she said.

"We are especially pleased that you have endorsed the idea that employers must continue to take responsibility for part of the health-care costs for all working Americans," Shalala continued. "Your willingness to come to the table on this issue has demonstrated vision, leadership, and a true national spirit."

The Chamber opposes a mandate for employers to purchase health plans without adequate subsidies for low-wage employees and their employers.

—Roger Thompson

LABOR RELATIONS

Commission To Study Labor-Management Relations

U.S. Labor Secretary Robert B. Reich and Commerce Secretary Ron Brown have set up a commission to study U.S. labor-management relations.

According to the Labor Department, the Commission on the Future of Worker/Management Relations will investigate the current state of worker-management relations and labor laws and will report its findings to the secretaries of labor and commerce by next March.

In a recent speech to business leaders, Reich said his goal as labor secretary—and the goal of the commission—will be to overcome the "legacy of distrust" between labor and management.

The U.S. Chamber of Commerce has pledged to support the commission's goals. But the commission must stay "true to its focus" and "not move into areas that alter the balance that now exists between management and organized labor," said Jeffrey Joseph, the Chamber's vice president for domestic policy.

—David Warner

Making It

Growing businesses share their experiences in creating and marketing new products and services.

PHOTO: SWESLEY HITT

Database searches *for patients: Janice Guthrie, right, with employee Julie Smith.*

Patient, Know Thy Illness

By Michael Barrier

Janice R. Guthrie of Conway, Ark., has been living with advanced ovarian cancer for nine years. "I had surgery," she recalls, "and then radiation was prescribed."

Guthrie went to the library at the University of Arkansas Medical Center "and read everything I could on my type of cancer, thinking that I was preparing myself for the radiation therapy."

What she learned surprised her: "When I read the articles, I realized that radiation was not a definitive treatment for my type of cancer."

Guthrie, 49, has a very rare form of ovarian cancer; for that reason, the studies she found involved only very small groups of women.

She says, however, that "some of the Scandinavian research had shown that women who had no therapy at all had the same life expectancy as women who had radiation therapy—but the women who had radiation therapy had permanent debilitating side effects to the gastrointestinal tract."

Her research led her to a specialist familiar with her cancer. "My husband and I were able to intelligently discuss my case with him," she says. Together they decided to forgo radiation therapy and "try to manage the cancer surgically. That's what we've done, over seven surgeries."

Guthrie believes that doctors may be more conservative now because of the nagging threat of malpractice lawsuits. If a doctor is reluctant to prescribe anything but the most conventional treatment, it will be up to the patient to seek out and propose another course—just as Guthrie did in her own case.

Guthrie says that when she had her first recurrence of cancer, she was able to counter her doctor's recommendation of chemotherapy by citing the cases of women who had survived as long as 18 years while choosing to manage the cancer through the use of surgery. Each surgery has required perhaps six weeks of recuperation, but other than that, Guthrie says, "I have a great quality of life. My research has really kept me alive."

It also spurred her to create a business that would give other victims of disease and injury the chance to play an intelligent role in their own treatment. "I saw how empowering my own research was for me," she says, "and I got to thinking: If I only had a few years left, what was it that I wanted to do? And this idea sort of evolved, that I'd like to do this for other people."

Guthrie went into business, as The Health Resource, in 1984. Her company provides what it calls "an individualized, in-depth research report on your specific health or medical problem," compiled largely through a search of computer databases.

Guthrie has one full-time and two part-time employees who devote their time to such searches. It is one of a mere handful of organizations devoted to helping patients meet their doctors on something like even terms.

The Health Resource charges $275 for reports on a specific diagnosis of cancer—they require searching more databases—and $175 for reports on other specific diagnoses. (It will also do a "symptom report" when an illness has not been diagnosed.)

Most reports run 50 to 150 pages, with cancer reports the longest.

Although The Health Resource's research can be recycled to some extent, within the copyright law's limits on copying published articles (The Health Resource pays royalties on the copies it makes), Guthrie says that "the rule of thumb every time someone calls is that we always do a new computer search. We feel ethically obliged to do that, because new articles are added daily."

Guthrie offers a full rundown on alternative treatments as well as conventional medicine. "I find that people are really responsible about wanting holistic or alternative approaches," she says. "They don't want to be told, 'Well, try acupuncture.' They want to see

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something objective" indicating that acupuncture can have positive effects.

Her sympathy for alternative medicine is rooted in her own experience. She has drawn on alternatives while "keeping one foot firmly planted in traditional medicine, with a good surgeon. There are a lot of exciting and reputable holistic practitioners."

A customer who wants help only through conventional medicine will get no information about alternative therapies, though; Guthrie tries to individualize her services, tailoring them not just to a specific illness but to the person's age, ethnic background, attitudes, and beliefs.

Guthrie recalls that when she first conceived of The Health Resource, she tried out the idea on about a dozen physicians. "To tell you the truth," she says, "most of them either acted bored—acted like they needed to get away—or they laughed in my face."

Initially, she says, when her clients took her reports to their doctors, they responded coolly: "The physician would say, 'That won't work for you.' "

But there has been a major change in physicians' attitudes, Guthrie says, particularly on the East and West coasts. "We have lots of physicians who use our service now. We have physicians who display our brochures in their waiting rooms." She thinks that perhaps 5 percent of her business now comes from physicians.

Ultimately, Guthrie believes, doctors themselves must become more computer-literate and make greater use of the databases.

However much the doctors may be changing, she says, it is really the patients who are transforming medicine: "They want to be empowered, they want to be participants with their physicians." ■

Picking The High-Tech Winners

By Steven B. Kaufman

Michael Murphy grew up in Newark, Del., the son of a Du Pont engineer, and he had no burning desire to do anything in particular. But he did well enough in school to get himself admitted to Harvard. His studies led him to economics and subsequently awakened a fervent interest in the stock market and, especially, high-technology stocks.

Today, Murphy, 51, works with four colleagues in computer-strewn offices above a Thai restaurant in Half Moon Bay, Calif., just south of San Francisco. He is a near-legend in nearby Silicon Valley for his stock-pricing prowess. He is editor of *California Technology Stock Letter*, the nation's only newsletter that focuses solely on technology stocks—and one whose model portfolio ranked fifth best among 77 newsletters tracked by *Hulbert Financial Digest*, with a 147 percent return for the 5½-year period that ended in June 1992.

Murphy is widely admired because he spends endless hours tracking technology stocks at industry conferences and through computer analysis—and richly rewards most of his 1,000 subscribers.

He made one of his better calls in November 1990, when he strongly recommended the purchase of Advanced Micro Devices (AMD) after learning that the company was on the verge of introducing a clone of Intel Corp.'s 80386 microprocessor. AMD's stock, then $4 a share, moved up to about $14 only five months later.

"Mike was the first to verify the AMD 386 rumor," says Jerome Dodson, president of Parnassus Fund, a San Francisco-based mutual fund that bought an additional 50,000 shares of AMD after reading Murphy's newsletter. "That alone was worth the price of the subscription."

Steven B. Kaufman is a free-lance writer in San Jose, Calif.

His newsletter is $350 a year for 24 issues.

After he graduated from Harvard in 1963, Murphy got a job that gave him the opportunity to work on the IBM 1403—the first computer that used transistors rather than vacuum tubes.

The computer allowed Murphy to track the sales of thousands of food products at 200,000 outlets worldwide—work previously undertaken by more than 400 people—and Murphy fell in love with the machine's capabilities.

"It showed me you could replace a tremendous amount of human effort with just a little bit of electronics," Murphy recalls. "It was a real eye-opener that a machine could be that powerful."

Murphy became a programmer, and then, in 1968, he left his first employer to take a job as a stock analyst. He covered a variety of industries but spent more and more time on high technology. Silicon Valley was taking shape, and Murphy became enamored of technology's superior growth characteristics.

"Early on, I figured I would be better off analyzing growth companies with the wind at their back," Murphy says. "How can you not be excited by the idea that you can start a company from scratch and build it into a $500 million business in five years?"

Murphy began publishing his newsletter in January 1982, on the cusp of the explosion in personal computing that continues today.

PHOTO: ALFRED MERTZ

Hooked on computers, *newsletter publisher Michael Murphy tracks high-technology stocks.*

A Murphy innovation is the growth/flow ratio, a new way of valuing technology stocks. It is similar to the familiar price/earnings ratio, but it adds spending for research and development into the earnings component, from the belief that R&D sets the stage for future products and earnings.

"On average, technology companies spend at least 7 percent of sales a year on R&D," Murphy says. "The more they spend, the more they can drive their own growth, almost regardless of what is happening in the economy."

An added plus of the growth/flow ratio, Murphy says, is that Wall Street views R&D spending solely as an expense that chips away at the bottom line. That depresses the stock price of big R&D spenders, making them even more attractive investments.

Murphy is especially bullish on technology companies in the coming years because they "know how to generate growth without raising prices. That means technology stocks will be among the best investments in the '90s."

That should be an unusually big advantage in an era of relatively sluggish economic growth. ■

Comics For The Connoisseur

By Michael Barrier

Last fall, the media buzzed over an event in the comic-book world: the temporary "death" of Superman. While the excitement over that issue of *Superman* was at its peak, a few thousand cognoscenti were savoring another notable comics publication: a book reprinting all of the 1948 "Li'l Abner" comic strips. It was in that year that "Abner's" creator, Al Capp, introduced the Shmoo.

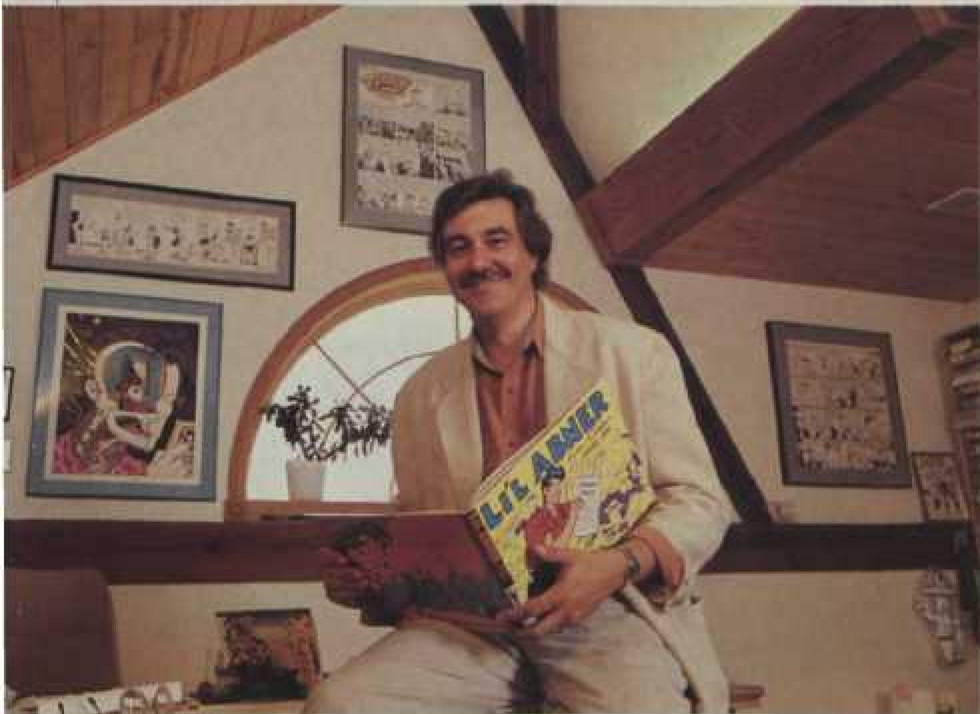


PHOTO: T. MICHAEL KEZA

Kitchen Sink Press' *Denis Kitchen publishes books and comic books, including reissues of Al Capp's strips and those of other cartoonists.*

In Capp's satirical vision, the Shmoo—a small, utterly benign creature—satisfied all human needs; and, in doing so, it spawned universal misery. The story of the Shmoo is still regarded as a high point in the history of a comic strip that had many of them.

The Shmoo was brought back to life by Denis Kitchen, a Princeton, Wis., publisher who works out of a converted dairy barn under the Kitchen Sink Press imprint. Compared with the big comic-book publishers, Kitchen Sink Press is a tiny operation—18 full-time employees and revenues "in the low seven figures," he says.

There is, however, nothing picayune about his books and comic books; he is, for instance, reprinting all of "Li'l Abner," in lovingly produced books each devoted to a year of the comic strip. He has reprinted many years of other comic strips, including Milton Caniff's "Steve Canyon," and he also publishes new comic books that have won success with the readers who haunt the small retail shops that specialize in comic books. One of his titles, *Xenozoic Tales*, will be transformed into an animated TV series (under the title "Cadillacs and Dinosaurs") by CBS in the fall; Kitchen says a multimillion-dollar toy deal is pending.

At 46, Kitchen has been in business for more than 23 years, but he has thought of himself as a businessman for a few years less than that. He started in Milwaukee, as a self-published "underground" cartoonist; that label was applied in the 1960s to crudely printed, low-circulation comic books with defiantly adult language and often raunchy subject matter.

When Kitchen Sink Press began publishing the work of Kitchen and other underground cartoonists, it was "what I call a typical hippie organization," Kitchen says. "I had literally no capital. In order to get people to work with me, I had to give them stock." He gave away three-quarters of the company to other Milwaukee cartoonists, "so within a month of founding the company, I was a minority stockholder."

To his surprise, he says, making the cartoonists stockholders "backfired; there really wasn't the motivation I expected. I spent years reacquiring the stock." In other ways, too, Kitchen says, he got a painful education in business. When it came to granting credit, for example, "I trusted anybody with a beard and long hair." He got burned only a few times, he says, "but after a while it became clear to me that there were some long-haired sharpies out there."

The naivete of his early years was, however, a necessary part of his later business success, Kitchen says. "If I had just been a businessman, I wouldn't have been able to relate" to the cartoonists whose work he published.

Kitchen wound up in Princeton, a small town in central Wisconsin, 20 years ago when "my first wife insisted that we move to the country—against my wishes, because I loved Milwaukee." He grew fond of Princeton and found it also offered a very practical advantage: "The overhead was low. When times were tough, having extremely low rent could make the difference."

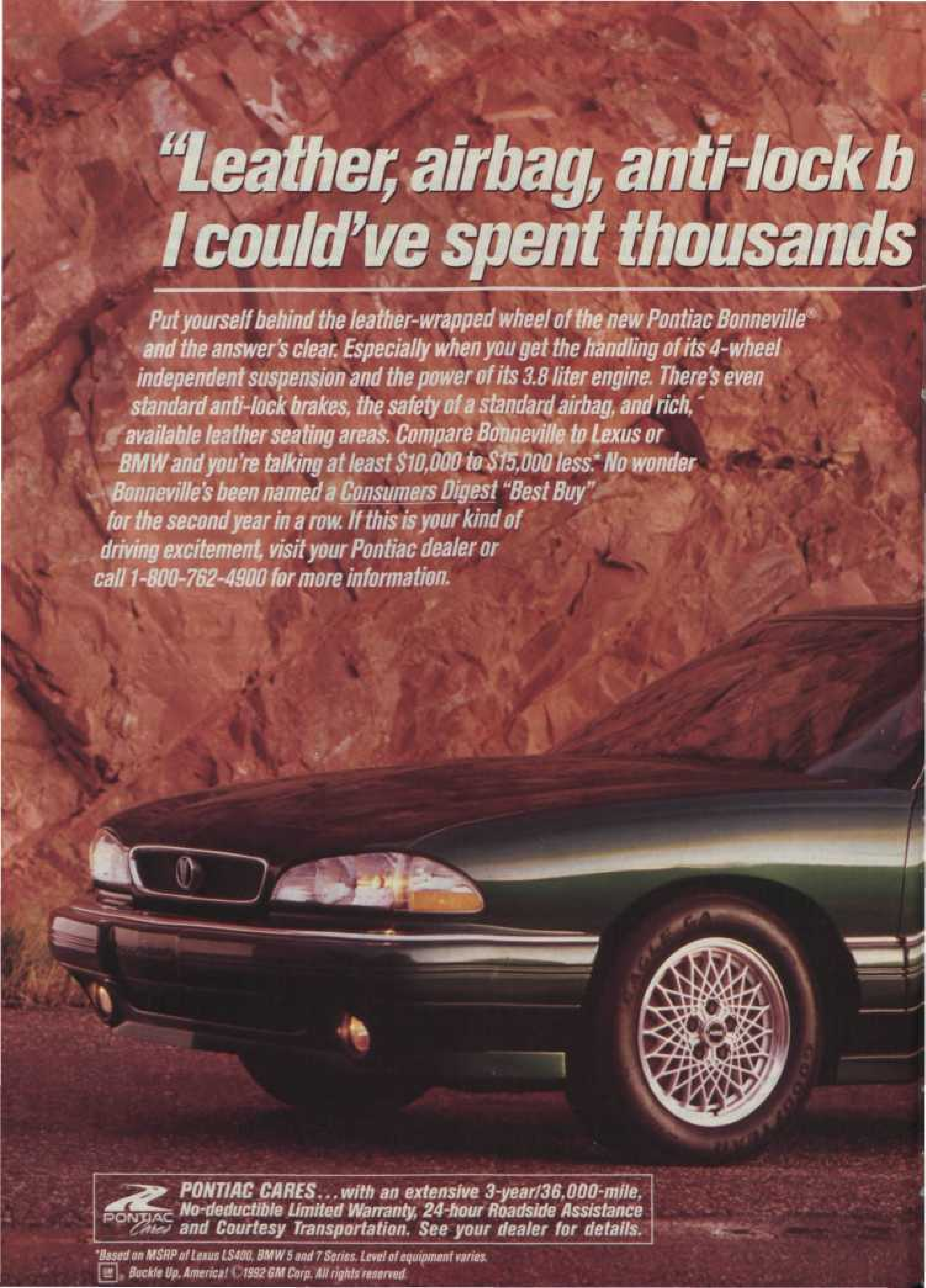
Tough times arrived in the middle '70s, when the market for underground comic books collapsed. To deal with that crisis, Kitchen says, "we diversified. We stressed distribution and mail order, and we began doing reprints of classic comics."

True to his underground roots, Kitchen publishes some comics—new ones as well as reprints—that he doesn't expect to show a profit. "I've always had this philosophy, in my business, that some things would subsidize others," he says. "Because ultimately I want to publish to satisfy myself. If I had to turn down something I thought was great, just because I thought its prospects for being profitable were slim, then it wouldn't be the kind of business I wanted."

His mail-order catalog has been where Kitchen has made his biggest gains in the last few years; through it, he has been able to reach readers who may be repelled by comic-book shops with garish displays designed to attract teen-agers.

Next fall, Kitchen Sink Press will in fact start bringing out two catalogs—one aimed at younger readers, and the other at an older audience with more sophisticated tastes. The catalog for older readers will be devoted mainly to reprints of classic newspaper strips. "I'm looking for the audience that grew up reading newspapers 30, 40, 50 years ago," Kitchen says.

Kitchen thinks that such reprints differ profoundly in their appeal from the "death" issue of *Superman*, which thousands of people bought in the probably vain hope that its value will rise sharply over the years. "We've got to get back to the fundamental approach," Kitchen says, "which is that you buy a comic book to read it, and not to put it in a plastic bag and stash it away." NB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COVER STORY

Communications Revolution

By Ripley Hotch

Information channels make up the nerve system of business. The better information flows, the better a business of any size can compete. New technologies and new uses for old ones have transformed the marketplace in the past few years—think of the now-ubiquitous fax machine, the data modem, the networked personal computer, the cellular telephone.

The next generations of technology will make current telecommunications look as awkward as the crank telephone of 1910. They will come by fits and starts, but they will transform the way business is done as surely as the telephone itself has. And, ultimately, they will enable businesses to operate more efficiently and profitably.

Up to now, the kind of information transmitted required particular devices for that kind of information. Voice messages go by analog signal over copper wires to telephones. Television and radio signals are broadcast via air or cable to sets in homes—not to telephones. Radio waves are picked up by radios, television signals by televisions. Computers receive data by disk or by telephone and radio modem—waiting in line like any other traffic on the shared lines.

All of that will change. Digitizing information, which will become the standard way information is converted for the purpose of transmission, means that anything can be delivered to any instrument capable of displaying it.

When information is digitized, any device can become a "receiver" for it, as long as it is capable of the appropriate display: A TV can receive and display computer text, a radio can receive a phone call, and so on. The telephone or cable wire or the wireless radio or microwave frequencies can carry any of it equally. Or it can be sent over any combination of carriers.

Most telecommunications observers envision a worldwide linking of information networks. New devices, called personal communicators or personal digital assis-

California free-lance writer Joe Dysart contributed to this story.

Saving Time And Money

Service and delivery businesses could save time on wasted diagnostic runs and delays in bill payment by using a combination of digital telephone services and wireless delivery.

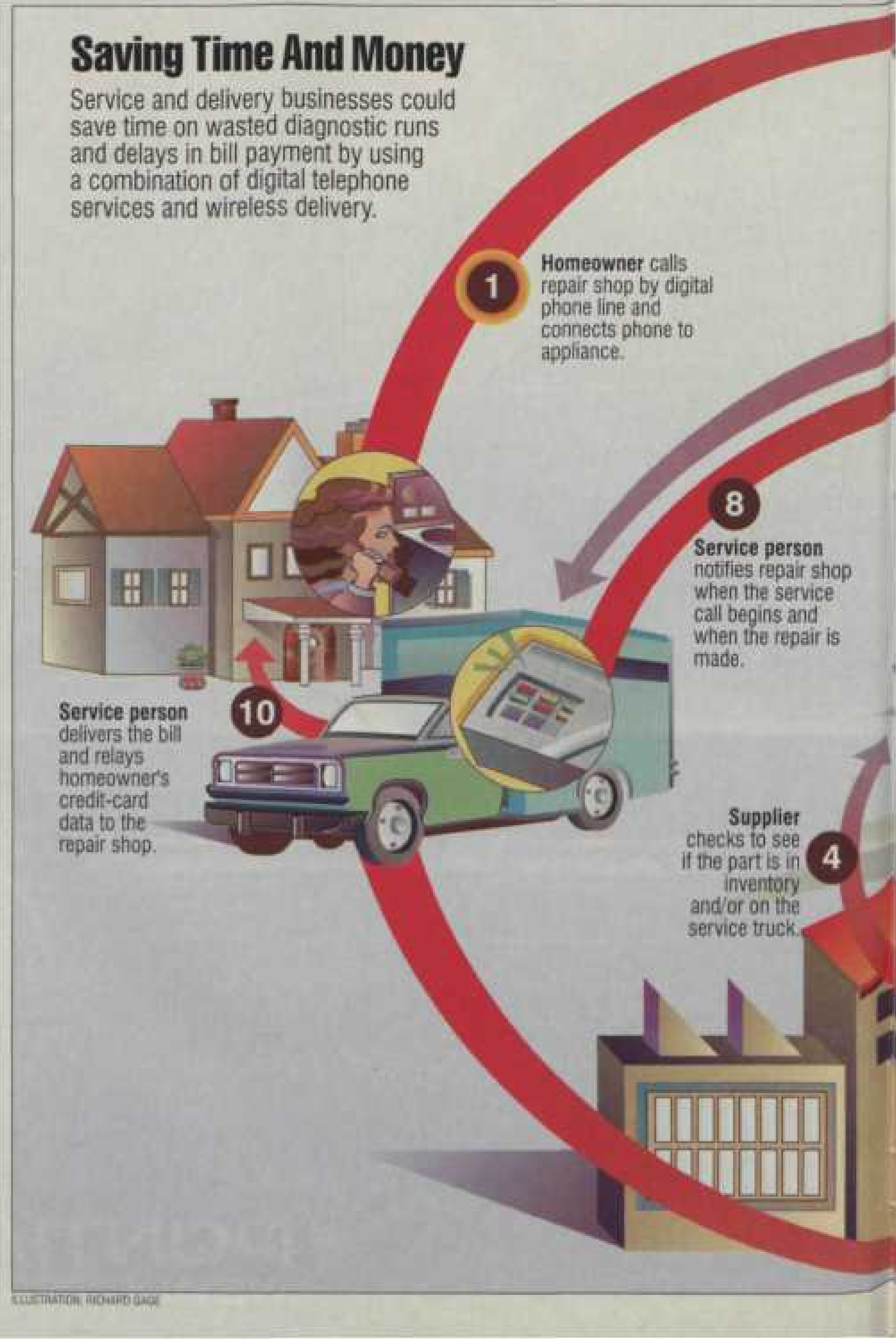

ILLUSTRATION: RICHARD GAGE

Prepare your firm now for the sea changes under way in the technology for managing information.

tants, will be able to tap into those networks anywhere in the world. They will recognize your handwriting, send and receive faxes, and even include a telephone. The telephone will become smaller and more powerful, and its functions will begin to merge with the computer's.

Television will become interactive, a window into all that has ever been written, painted, or filmed, anytime you want it. Business presentations written on computers, including multimedia presentations, will be sent to television sets by way of phone lines, broadcast spectrum, or cable. Other people will be able to interrupt the presentation and comment on it—even insert alterations if you want them to—by using a telephone and a video camera. Early versions of many of these services already are being marketed.

The big telecommunications companies have learned—and openly say—that their growth will be in serving small, midsize, and entrepreneurial companies. They are offering services that make the small office as connected with information and customers as any big company.

What might that mean for small business in the future? Suppose you have an appliance-repair company. Instead of having to guess about what parts to carry on your truck, you can have the homeowner plug the telephone line directly into a faulty stove, for example, so your office computer can analyze the appliance's problem, check your inventory or your supplier's for a replacement part, and schedule a service call (see the illustration).

Many new communications technologies use wireless radio frequencies to collect digital information, and these will grow exponentially. For example, to check and verify credit-card transactions, you now have to attach a credit-card terminal to a telephone wire. With a wireless terminal, however, a delivery person can verify a credit-card charge at your customer's house.

"I think wireless communications is probably the last communications breakthrough in our lifetimes," says Kenneth S. Forbes III, who is president and CEO of

MobileDigital Corp., in Alameda, Calif. "The ability to reach anyone while I'm mobile in real time without it being intrusive is the closest to thought projection we're going to get."

Simple hand-held electronic note pads can already send messages directly to any employee in the field. More-complex devices include the EO Personal Communicator, a notebook computer with a cellular phone that EO, Inc., plans to market later this year. It will be able to use wireless networks such as Ardis, SkyTel, or RAM Data to tap into company databases and to carry phone calls at the same time.

Through interactive television—whether accessed by cable or through radio waves—customers will be able to order products or services on demand. After making the order, the customer can, on the screen or using a pen-based note-pad computer, fill out and sign an electronic check. The bank's computer will recognize the signature, approve the transaction, and credit the vendor's account, all in a few moments.

The details of the transaction can be stored in a computer database. Software programs could create profiles of customers' interests and preferences—and probable preferences. Later, businesses could tap into that customer information so precisely that marketing would no longer be niche marketing but individual marketing—anywhere in the world.

The advantages of this kind of communication are gains in speed, accuracy, and customized service. There will be huge opportunities for small companies in brokering all kinds of information and in creating databases or advising businesses on how to take advantage of information in databases.

For all this to become possible, the means of delivering information—telecommunications—has some tough problems to solve. Software has to be written. Someone has to build an "information highway" to handle the traffic. Someone has to come up with standards that will allow all the pieces of equipment to cooperate.

What follows is a guide to this revolution, how the information highway will fit into it, and some advice on how to prepare yourself and your business for the challenges and opportunities brought by this tidal wave of technology.

PHOTO: GEORGE OLSON

Kenneth S. Forbes III, president and CEO of MobileDigital Corp., says, "Wireless communications is probably the last communications breakthrough in our lifetimes."

A Digital World

Modern telecommunications increasingly depends on computers. Computers speak a digital language—combinations of 1's and 0's that can express everything—numbers, words, voice, pictures, *if* the machine converting the information can count fast enough. Telephones have always used analog—an electric wave-form representation of sound. It is slower, less accurate, prone to interruptions and distortions. It does not, however, require near the computing power that digitized information needs.

The communications language of the future will be digital, and modern telecommunications is increasingly a marriage of computer technology and telephone technology. This marriage, called CTI, for computer-telephone interface, even has a Washington, D.C., trade association devoted to it.

As long as you can pack enough digits onto the signal, *any* information can be digitized, and any kind of information can be combined with any other—in any medium.

"Once this information is digitized, I have access to every library, every gallery in the world, to any information base I desire, because I'm requesting and retrieving information in a specific way," says Tom Magazzine, president of GTE Vantage Solutions, a GTE division based in Chantilly, Va.

Now the problem is to have enough capacity to create, carry, and reassemble digital signals that contain enormous amounts of information.

Copper wires can carry relatively few channels of analog signals. Sending so much information requires a wider information highway—what the industry calls "broadband."

The telecommunications companies have devised the Integrated Services Digital Network (ISDN), which can send digital signals over copper wires. The network is broadband, but not the broadest. It's actually software and central switches handled by the regional Bell operating companies. To complete the network, users have to have ISDN phones. In the digital world, this digital network is like replacing a gravel country road with a two-lane blacktopped highway.

"Right now we have a physical wire from phone company to house, and that wire does one thing at a time," says Lisa Pierce, a product manager for ISDN at AT&T's Business Communications Services Unit, in Bedminster, N.J. "It does that one thing at a relatively low speed. When we take that wire and turn it into ISDN, it can do two things at the same time, independently or in concert, at very high speeds."

To use ISDN, you have to have a local phone company that supports the network with local switches, and you have to have ISDN equipment, which is expensive—more than $500 for a telephone. Right now, only larger companies with specific missions are using it, but the cost of the equipment is sure to fall into a range where small businesses can buy it, and the availability of the equipment and the network is sure to rise as AT&T presses forward with research and applications.

Even now, companies that can use telecommunications for most of their business can locate virtually anywhere in the country without sacrificing their ability to serve their customers.

Many users of fax don't realize that it is a digital technology—probably the most common in business use. Fax services are the doorway for many small-business information needs.

Among the companies that offer "fax-

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back" services, which in themselves are often provided by other small businesses, is Sprint. A fax-back service allows a business to dial the service and get a menu of options, from business advice to lists of restaurants. After you make a choice—you know, "press 1 for Timbuktu"—then the material is faxed to you. All without human intervention.

"The touch-tone phone buttons are signals to a [Sprint] computer and give you access to one of the world's most powerful computers," says Bill Burgess, vice president for marketing of Sprint's Business Services Group (its small-business unit). The problem for all users is to know what is available, "to make that thing a window onto the power of the network." Recognizing that problem, Sprint is putting together an information-services catalog from all service providers, to be published later this year.

A Fiber-Optic Future?

Beyond ISDN waits the telecommunications superhighway—a national broadband network that uses optic fibers rather than copper wires. Fiber-optic lines can carry incredible numbers of signals; it would be to telecommunications what the interstate highway system was to the two-lane road system of the 1950s.

It is unlikely that the federal government has the resources to tackle this project, says Rep. Edward J. Markey, D-Mass., chairman of the House Energy and Commerce Subcommittee on Telecommunications and Finance. Instead, the government will be setting standards through the National Institute for Standards and Technology.

New ways of broadcasting digital signals may someday be able to pack as many signals onto radio or microwave frequencies as onto fiber optics. That would mean there may be no need for a trillion-dollar investment in wiring the whole country.

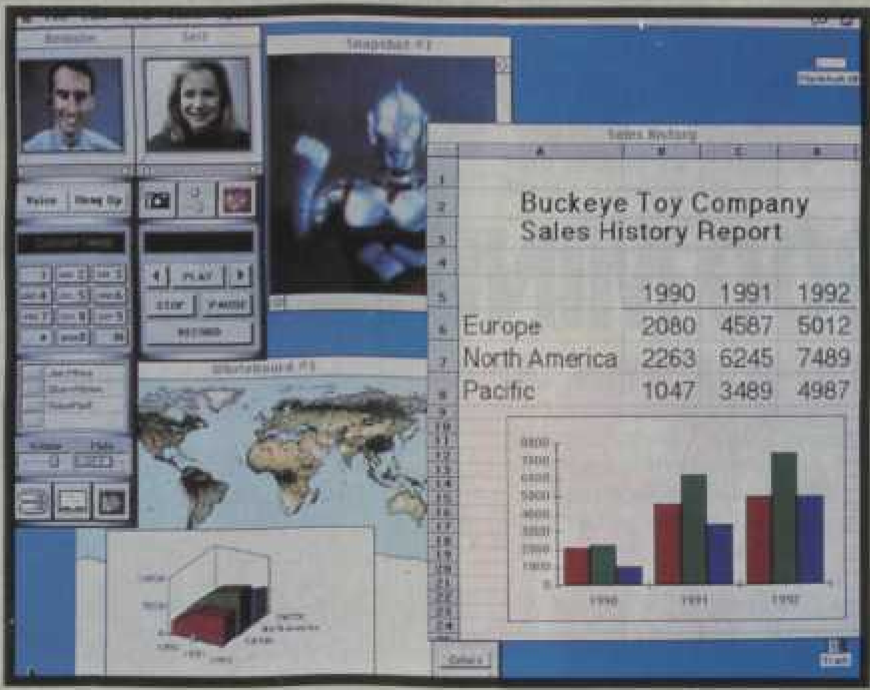
The superhighway will depend, to a certain extent, on the government and on research being done now on the marketplace. The consensus expectation is that it could be completed in the next decade or so. For more on this subject, see the article on the Clinton administration's technology initiatives, on Page 29.

Face-To-Face, Sort Of

A major aim for those creating new technologies is to manage business communications over long distances but with the richness of face-to-face meetings. Ideally, you might want to see the people you are talking to anywhere in the world and to work together on the same document in all locations, making changes to it as you talk. There are products that allow some versions of this right now. A company called Share Vision Technology, in San Jose, Calif., offers an upgrade to a Macintosh computer that allows you to share documents and video (and your own image) over ordinary analog phone lines.

VoiceView, from Radish Communications Systems, Inc., in Boulder, Colo., works through ordinary phone lines to allow a screenful of data to be sent during a phone conversation.

Having telephone lines that can carry two signals means you can carry a picture or data when you are talking.



See and be seen: Meetings by telephone are possible with a product from Share Vision Technology; it permits sharing of documents, video, and the callers' images over conventional phone lines.

Back in the 1960s, AT&T introduced a picture phone, but it never caught on. Marketers think new screen-based phones will. They amount to a simple version of PC-based interactive desktop video. Aggressively promoted by companies such as Northern Telecom and AT&T, the technology is based on the simple premise that people talking by phone can be more productive if they can also see simultaneous video of each other's expressions and body language.

For Northern Telecom, the technological translation of that notion comes in the form of a product called VISIT. A computer-based, hardware/software package, VISIT enables users to view persons they are telephoning on their PC screens while they work together on a text, graphic, or other visual image on the screen.

A graphic designer using VISIT, for example, could talk face-to-face with a client "on screen" while working with an image of a proposed layout or design, which would also simultaneously appear on the PC screens of both parties.

"We believe VISIT and similar products will become key productivity tools for businesses, universities, and other institutions in the years ahead," says Edward Lucente, Northern Telecom's executive vice president. "Multimedia communications [will] become an imperative for business success, just as computers emerged as an important competitive tool in an earlier era."

Granted, VISIT's screen-top camera so far can send only a choppy black-and-white image of the person on the other end of the line. And users will need to install a special "Switched 56" or ISDN telephone line before they can use the product. But computer-generated text and images sent through the system arrive crystal clear and in color. VISIT works on both Macintosh and Windows computers, and it lists for $3,899.

AT&T's VideoPhone, on the other hand, is much less sophisticated, yet its

elegant simplicity could make it a winner for the company. Like VISIT's, its videos of callers are choppy. It does not offer exchanges of computer texts or graphics at this time, but it's priced at $2,000. Nonetheless, the telephone looks just like any other phone that people have been using for years, except for the palm-sized video screen and camera on top. And the operation is intuitive: Take it out of the box, plug it in, and use it. No special phone lines are needed.

Moreover, the VideoPhone has international compatibility—unlike VISIT, which so far is designed only for use within the United States.

For what is called "real-time" videoconferencing, you have to go to more expensive technologies. But they are now available in desktop form. VideoTelecom of Austin, Texas, has moved its high-end system to the desktop personal computer for about $15,000 per system. Hitachi also has a desktop system for about the same price.

But these prices are still too high for small companies that need only an occasional teleconference. Instead of giving up on the idea, however, consider using a central location where you can rent teleconferencing time and capabilities.

For as little as $400 an hour, even the smallest of businesses can rent a videoconferencing room in a nearby location, and meet others via video anywhere in the world.

"Actually, it's an idea that first started with corporations that already had videoconferencing rooms," says David Carlson, president of Affinity Communications, a video-room brokerage based in Essex, Mass. "They found they wanted to include some of their smaller offices in the videoconferencing loop. But they decided permanent installations wouldn't be cost-effective."

Instead, they began renting rooms of other corporations that had desirable locations. The idea mushroomed, and today, many room owners are doing a brisk business in rentals to any and all takers.

Indeed, rental swaps have become so popular that brokers like Carlson have sprung up to facilitate the linkups.

Now, Carlson says, the lion's share of room rentals go for $250 an hour, with added charges of $75 an hour for the cost of the call and a flat $75 scheduling fee.

He says similar services are available from AT&T and Sprint.

There's also a directory available from the International Teleconferencing Association in Washington, D.C., that lists companies and organizations that are interested in renting time.

Either way, these opportunities seem to be a painless way to see if videoconferencing is something a company or organization needs often or just occasionally.

If you find that you like what videoconferencing does, you may be ready for a more advanced version of teleconferencing coming soon from GTE Vantage Solutions. Vantage Solutions works with technology partners to introduce products in a rapidly changing market. One of its partners is JRM Software, a six-person firm in Chantilly, Va., that is creating the software for a digital video teleconferencing system called DVTS.

DVTS uses ISDN phone lines (because it requires a lot of bandwidth), and it allows several users at different stations to comment on the same image—whether it is a spreadsheet, a report, an overhead slide, or whatever.

The software, says Rick Minicucci, president of JRM, restricts the audio to one person at a time who has the "floor"—but everyone can draw on the document at once (in different colors). "It's actually quite intuitive," he says. The cost will initially be about $15,000 per station, but that will probably drop quickly.

Cable Television

Fiber optics are also showing up in cable-television wiring. Cable already has a high bandwidth, and it is introducing technologies that will carry more signals over the same lines. Time Warner Inc. is building a fiber-optic network in Orlando, Fla., that will offer all kinds of services. The National Cable Television Association says that digital data compression technology—basically software that can cram a whole lot more digits onto the same channel space—can get 500 channels into a home over current cable lines. Time Warner says its fiber-optic system could carry as many as 50,000 channels. That is an indication of what bandwidth means.

The purpose of these improvements is not only to offer broader entertainment and information programming but also to allow the viewer to respond to programs and, for example, to order merchandise or services by interacting directly with the television. This development, called interactive video and data services (IVDS), is

Plugging Into Online Databases

One form of interactive telecommunications that has recently taken a big jump in popularity is the online database service. There are five major ones: CompuServe (the largest, with more than a million members), Prodigy, (a commercially oriented service jointly operated by IBM and Sears), GEnie, America Online, and Delphi.

The services offer a way for PC users to talk directly to others with similar interests all over the world.

Small-business owners, for example, can obtain business advice through a modem phone call. In the future, users will be able to see the people they're talking to, but for now, typing messages back and forth works just fine.

Most online databases work like the GEnie Small Business Roundtable. A computer bulletin-board system accessible with a modem, the Roundtable offers advice on starting and running a business. A bulletin board typically has a designated "sysop" who serves as a kind of moderator; sometimes the person receives a fee for the service.

Says David A. Young, owner of Snapshots One Hour Photo, in Londonderry, N.H. "Just by typing in questions on the board, I've gotten answers on legal advice, accounting—even marketing strategies to compete with Wal-Mart."

Like most commercial bulletin-board systems, GEnie charges a small monthly access fee of $4.95—and that's the only charge for users who call during non-prime hours.

To "visit" a computer bulletin board is a relatively painless "trip." By simply dialing a telephone number via modem to the service desired, even a novice can access the various topics of interest presented on the screen, just by typing in a few key words.

PHOTO: ©CINDY LOO—BLACK STAR

Tapping the technology: *Video-room broker David Carlson. (See main story.)*

Access to information on 1993 tax tips, for example, would be as easy as typing in "93 TAX" and waiting for a mother lode of questions and answers on the subject to begin scrolling down the PC screen. Or, if the user has a question that the board has never seen, he or she can type it in and

PHOTO: T. MICHAEL KEZA

The future of telecommunications is unfolding rapidly in places such as the Sprint Applied Technology Center, in Washington, D.C.

attracting a number of players. They include film and entertainment companies such as Time Warner and TCI Cable and computer companies such as IBM and Apple.

There are many approaches to interactive video services. One, taken by the IT Network, created by ASI, an 80-employee company in Dallas, will be using existing cable networks and some wireless to bring two-way communications to the home. The expected service launch is in the fourth quarter of this year.

"Small businesses are flooded with data but starved for market intelligence," says John Reed, executive vice president of marketing and strategic development for ASI. "Digital can act as an intelligent agent for you. Interactivity allows the business owner to sort data and create higher levels of knowledge in your areas of concern." The software to do this kind of search exists, and ASI is adapting it for the network.

Reed sees opportunities for his network and small businesses first in training, advertising, sales, and delivery. "It provides a number of ways for someone with a product to be introduced to a prospect," Reed says. "You basically have an ad with a catalog in back of it. Sales can happen online, or the customer can be directly connected by phone to the seller. The retailer has a great opportunity for wider exposure and greater volume."

TV Answer, a 270-person company based in Reston, Va., has decided to use a wireless network for its interactive system, which will also be introduced this year. David Lehman, president of TV Answer, aims for the creation of an electronic marketplace, "a whole new method of businesses interacting with people."

As an example, Lehman says a local restaurant could make its menu available, accept reservations, accept take-out orders, and offer discount coupons. Or, you could order airline tickets, make your seat selection, and get baggage tags from the small printer attached to your TV.

Both Lehman and Reed believe that eventually there will be an all-in-one appliance in the home—a combination of television, computer, and telephone—that will be easy to use and will offer a wealth of services that will connect customers with businesses of all sizes.

Small-business owners should keep a careful lookout for the time when the new cable services become available in their

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dial back in a day or two to see if someone has posted an answer.

"We have a tremendous number of professionals online, so the chances of someone finding an expert opinion [on] the particular question they're asking is extremely good," says Janet Attard, who founded and still coordinates the small-business board for GEnie.

Indeed, one of the advantages of the system is that all questions and answers on the board are saved for future reference. So it's very likely that answers to questions on everyday business concerns such as financing, starting on a shoestring, marketing, advertising, and accounting are already in the database.

In addition, Attard features regular "live chats," in which users can get immediate answers to questions from an expert who is monitoring the questions online. A live chat with an attorney, for example, could give a user an immediate answer to a question that might otherwise take days to resolve.

Moreover, the board has evolved so much over the years that it now offers many special-interest discussion groups devoted entirely to one industry or even one aspect of an industry. Young says he has been able to get expert technical advice on portrait photography, for example, simply by networking with other users of the board.

There's even an Online Business Directory that users can join; it enables them to list a brief description of their services and peruse the listings of others.

Of course, those who have never dialed into a bulletin-board service may be skeptical about all the free advice so readily dispensed. But for some reason, Attard says, once people go through that electronic doorway, the chance to meet and interact with a virtually unlimited number of people from all walks of life becomes irresistible. People get caught up with socializing in a totally new way, so if they can help someone in the process, they do.

"I always like to compare it to an old-fashioned barn-raising," says Attard. "Someone needs help with their business, and everyone else just pitches in. Plus, it's just so much fun."

If you want to sample a database that you don't have to sign up for, try SBA Online. All you need to do is have a 2400-baud modem; set your communications software protocol for no parity, 8 data bits, and 1 stop bit. Then dial 1-800-859-4636. It's a bulletin board for which Sprint is providing the toll-free number.

Following are numbers to call for more information about online databases:

America Online: 1-800-827-6364; (703) 448-8700.

CompuServe: 1-800-848-8199; (614) 457-0802.

Delphi: 1-800-695-4005; (617) 491-3342.

GEnie: 1-800-638-9636; (301) 251-6415.

Prodigy: 1-800-776-3449; (914) 993-8000.

—Joe Dysart

communities. Education uses may be the first, but a consortium of businesses through a local chamber of commerce, for example, might be able to have services tailored to their needs.

Wireless Communications

Cellular telephones have been around for only a few years, but they already have given a big boost to the technology of using radio and microwave frequencies to transmit digital signals. Now, a whole basket of new technologies will be using these frequencies to send information in new ways.

The chief device is the personal communicator, a combination of voice, fax, electronic mail, and paging. It will have many of the functions of a pen-based computer, with calendar, address book, spreadsheets, word processor, and communications access to online information services such as CompuServe or Prodigy.

Indeed, the personal communicator will be the Swiss army knife of telecommunications—a combination of pen computer, cellular phone, and wireless data modem.

The first out will be from EO, Inc., a 90-employee firm based in Mountain View, Calif. EO has formed partnerships with AT&T, Matsushita (the Japanese electronics giant), and Marubeni (the huge Japanese trading company) to produce and market its personal communicators.

Apple Computer Corp. plans to bring out its own version of the personal communicator, Newton, sometime this year. At first, neither of these products will offer all the potential functions, and they will not be cheap.

Smaller companies should be cautious about acquiring this technology too soon; for the time being, however, hand-held computers and cellular telephones in combination will give you a good feel for what these personal communicators will eventually bring.

David Lehman, president of TV Answer, foresees an electronic marketplace, "a whole new method of businesses interacting with people."

And Nice Pictures, Too

Television itself is about to be transformed by high-definition television signals. HDTV will offer superb quality in both picture and sound. The United States has been late to set a standard—Japan and Europe already have—but one result of the delay is that the U.S. standard will be digital, compared with analog in Japan and Europe.

Experts thought that sending digital signals by broadcast was years away, but General Information Technologies came up with a way to do it.

The boost offered to consumer electronics by the introduction of HDTV in this country will be enormous. HDTV sets, though expensive, can have very large screens without sacrificing quality, and they will be ideal for receiving digital signals of all kinds.

The companies competing to set the standard have spent millions to have their technologies accepted by the U.S. Federal Communications Commission.

When an HDTV becomes the all-in-one appliance, connected to all the pieces of equipment in the home, and connecting home, office, and the world, small firms will be as rich in resources and potential customers as the largest corporation. NB

To order reprints of this article, see Page 80.

How To Prepare For Technology's New Era

The average small business is still mostly on the outside looking in on the telecommunications revolution.

In light of this position, you should begin to prepare for the inevitable so that you can take advantage of new efficiencies and marketing opportunities as they arise.

David Russell, director of customer communications for GTE Telephone Operations in Dallas, suggests several ways in which small businesses should be preparing for the digital-communications future:

■ Consider how your office is wired. Should you have your office wired with fiber optics or some other broadband technology such as ISDN? (ISDN is equipment owned by the regional Bell operating companies and located in the offices of local phone companies; you have to have equipment in your office to take advantage of ISDN. You can contact the phone company about ISDN.)

■ Take an inventory of your telecommunications equipment and the substitutes offered by phone companies, computer companies, and others to see how you might take advantage of services that require a great deal of signal capacity. AT&T, Sprint, and MCI videophones, which will show an image of the person you are talking to, would be candidates for initial equipment purchases if they could serve your business. Look at what services are already available from your local phone company.

■ Rethink how you communicate. It's not hard to make a phone call, but business people need to think about how they communicate visually—with gestures and facial expressions.

For example, you could make sales calls over the phone, but what additional training might your people need to make an effective sales call? There will also be enormous opportunities for entrepreneurs to provide different types of visual-communication services.

■ Look at what new products and services you might be able to offer. Do you have a database that might be valuable? Could you possibly offer a service such as document conversion—putting documents into digital format? Could you leverage your current business by the time savings that modern telecommunications offer?

Get the inside story on healthcare savings in Colorado.

Colorado employers — large, medium and small — have gotten together with Denver's leading hospital and one of this state's largest physician groups to do something about the cost of healthcare.

This effort is called Integrated Health Partners — an Exclusive Provider Organization that gives Denver businesses control over quality and cost.

Integrated Health Partners allows you to actually evaluate for yourself the cost-effectiveness of the healthcare you pay for. And, it lets you rely on the one Denver hospital to achieve not only statewide acclaim for its low charges, but also national recognition for its impressive care for patients who undergo open heart surgery, suffer a heart attack, or experience congestive heart failure.

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The Clinton Push On Technology

The administration's sweeping policy proposals could benefit small businesses.

By John S. DeMott

"When I walked into the Oval Office, I had Jimmy Carter's phone operating with Lyndon Johnson's switchboard," President Clinton recalls of his first day in the White House.

That comment to a meeting of the U.S. Chamber of Commerce was the president's way of spotlighting his awareness of the technology shortfall the nation faces not only in the chief executive's office but also in many other critical areas of American life.

To get the nation moving toward the 21st century technology needed to undergird the economy, he has announced a plan calling for spending $17 billion on technology during the next four years. It is geared to the theme that "investing in technology is investing in America's future."

The proposal was actually made jointly by Clinton and Vice President Gore. As a senator, Gore had been introducing technology-related legislation since 1979.

In describing the 1993 model, Clinton and Gore make frequent mention of entrepreneurship, innovation, and small business as beneficiaries and/or providers of the high technology they envision.

The plan, *Technology for America's Economic Growth*, is viewed by its sponsors as a vehicle for "creating incentives for long-term investments in small business."

Specifically, Clinton wants legislation to encourage "high-risk, long-term venture-capital investments in start-ups and other small enterprises" that can contribute to the technological modernization of this country.

The proposal has run into criticism, however, from critics who say that it's not clear how and when those enterprises would benefit. And, the skeptics add, the plan is aimed at the small firms that will come into existence over the next few decades rather than at companies in existence—and in many cases struggling—today.

The president and vice president nevertheless express conviction that their plan "unleashes the creative energies of innovators by creating a market that rewards invention and enterprise."

By "ensuring the coordinated management of technology all across the government," the plan reads, America's industrial competitiveness will be strengthened, and a business environment will be created "where technical innovation can flourish and where investment is attracted to new ideas."

The skeptics, including many business people, also question the plan's emphasis on government and government-business cooperation, rather than major reliance on the private sector, to further U.S. technology.

At the same time, business generally has welcomed the enhanced White House interest in, and awareness of, technology.

Salim Bhatia, CEO of BroadBand Technologies Inc., near Raleigh, N.C., in supporting the need for Clinton's plan, says: "Competitiveness and productivity can be a fleeting strength. Things change much faster today because information is widely available. So parity can come about very quickly—a matter of years instead of decades." Bhatia's company is a supplier of fiber-optic communications systems.

Says Arthur Bushkin, president of Bell Atlantic's Information Systems Division, which is moving aggressively on several fronts to make vast quantities of information available to consumers and businesses: "It's extremely significant that we have a president and vice president who are not afraid of technology but, rather, embrace it."

IBM concurs, though it's refraining for now from commenting on specifics. Says Mark Holcomb, a spokesman: "We view what's happening as very positive."

The Clinton-Gore initiative calls for the federal role in American technology to spread beyond mission-oriented research in the Defense Department and the National Aeronautics and Space Administration, which "was appropriate for a previous generation but not for today's profound challenges," the proposal says.

Jack Gibbons, a physicist who is Clinton's adviser on science and technology, told the House Committee on Science, Space, and Technology in March that the administration wants to ensure that the "federal investment in science and technology becomes a key instrument for promoting U.S. economic growth and for satisfying other national goals."

The Clinton-Gore plan offers a long list of recommendations favoring such areas as faster, "agile" manufacturing for 360,000 small and medium-sized American companies to enable them to get products out in less time, at less cost.

Though a policy is still being drawn up, the administration apparently wants to expand the Manufacturing Technology Center concept already in place at the

PHOTO: KIM RICHARDSON—WESTLIGHT

A technician *adjusts mirrors in a laser-optics lab at Los Alamos National Laboratory, in New Mexico: Making four decades of Cold War research relevant to business.*

U.S. Commerce Department's National Institute of Standards and Technology. These centers—there are seven in the U.S.—bring the newest technology to the smallest businesses through hands-on demonstrations.

Employing 40 percent of the U.S. manufacturing work force, these smaller companies have turned up in various studies as lagging far behind their Japanese counterparts in using computers to make things.

And Clinton's plan calls also for increasing the civilian share of $70 billion worth of federal research and development from 41 percent now to more than 50 percent—$36 billion—by 1998. The Defense Advanced Research Projects Agency (DARPA), for example, would have a greater emphasis on civilian work, though it would remain a part of the Pentagon. "Defense" would be deleted from DARPA's name, a move long endorsed by the U.S. Chamber of Commerce and other business organizations.

But the most important parts of the plan fall into three categories: the "digital superhighway," technology transfer from the federal government to the private sector, and government-industry cooperation in commercializing U.S. innovation and turning it into profitable, useful products.

Here are details on each of these categories:

The "Digital Superhighway"

The idea behind the digital superhighway is to link universities, businesses, and America's 125 million homes into an information network, a system so facile and versatile that it could look up the War of Jenkin's Ear in the World Book Encyclopedia in a single second.

The highway would join the nation's burgeoning population of computers. It would be entirely supercomputer-based and would move information in the digital language of computers instead of the analog waves long common in telecommunications, television, and nearly all consumer electronics up to now.

Clinton has asked for $14 million in R&D money between now and October for the Commerce Department's National Institute of Standards and Technology to put into a digital superhighway, vastly more than the $2.1 million the Bush administration requested for the project for the 1993 fiscal year.

The ultimate digital superhighway would link everyone to everything in a technically elegant "lightwave river" of fiber-optic cables—tiny filaments of glass with enormous bandwidth and carrying capacity that would move information in coded pulses of light—replacing the copper wires that still make up critical parts of the "embedded" U.S. telecommunications network.

But that ideal would cost as much as $400 billion, take until 2015 to build, and, critics say, amount to overkill; the pure fiber-optic digital superhighway would have a capacity so great that only 10 percent of it would be used at any time.

Far cheaper alternatives, say their supporters, can be put into service quicker, as early as next year. Most of the regional telephone operating companies are backing what is called the Integrated Services Digital Network, or ISDN. (See "The Communications Revolution," on Page 20.)

PHOTO: EDUARD HALL

BroadBand Technologies' *president, Salim Bhatia, says: "Things change much faster today because information is widely available."*

Bell Atlantic will begin this fall in Morris County and Dover Township, N.J., to link 50,000 New Jersey Bell residential and business subscribers, including small businesses, to a feast of communications services over a fiber-optic network built by BroadBand Technologies. Cable television and telephone service will be offered initially, and other services such as "video on demand" will be added later.

Says Bell Atlantic's Arthur Bushkin: "We're not just talking about an alternative way of presenting movies and entertainment. That misses the point. We're talking about putting in place an infrastructure that lets information go from point A to point B—creating whole new businesses along the way. Travel agents who can show you what your destination looks like. Real-estate agents who will take you on a tour of a neighborhood."

Critics question whether a digital superhighway is all that necessary to sustaining the growth that the U.S. needs. Other purely economic phenomena like a continued lowering of long-term interest rates, they say, are vastly more important.

Still others want to assure that if such a system is built that it truly would be for the benefit of all—schools, hospitals, and small businesses, for example, and not just giant corporations and ivy-covered university research operations.

Technology Transfer

Throughout the four decades of the Cold War, the federal government amassed a trove of research information in some 650 laboratories.

Now the Clinton administration, like the Bush administration before it, wants to make the information—much of it declassified—available to small and midsize U.S. businesses in an ongoing exercise in technology transfer to enable smaller companies to compete globally.

Specifically, the administration wants 10 percent to 20 percent of the federal labs' $20 billion research budget to go for civilian needs in partnerships with industry. And it's asking Congress for $180 million in grant money for cooperative research and development agreements, or CRADAs, between the labs and industry, while at the same time "facilitating industry-lab cooperation by other means."

About 1,200 CRADAs are in place, allowing companies—some of them small—to work with the labs in developing ideas, specifying who will own what when the research is completed, and protecting corporate proprietary interests.

A number of academic organizations and the U.S. Small Business Administration have promoted technology transfer for two decades, and the Federal Technology Transfer Act has existed since 1986 to facilitate the process.

As a U.S. Chamber of Commerce mis-

PHOTO: T. MICHAEL KEZA

Bell Atlantic's *Arthur Bushkin: "We're talking about putting in place an infrastructure that lets information go from point A to point B—creating whole new businesses."*

sion, boosting technology transfer was formally a part of both the 1992 and 1993 Chamber business agendas and grew largely from a series of "national technology initiative" meetings conducted by the Bush administration for the U.S. business community and involving the Federal Laboratory Consortium for Technology Transfer.

The consortium, an independent federal agency set up to marshal the transfer of technology to U.S. firms, is working with the U.S. Chamber in that effort. A program called ChamberTech intends to maximize the exposure of federal lab resources through 3,200 member chambers at the state and local levels.

The aim is to link business with experts who can help solve problems and make the labs "user-friendly."

To all concerned, that's overdue. Some businesses, especially small ones, don't want to admit to problems, for example, and turn reticent about asking for help from anyone, let alone a government laboratory. Other executives have unpleasant memories of earlier dealings with the labs, wherein the "sorry, that's classified" barrier prevented any genuine information transfer.

The personal touch is the only one that really works, says Eugene Stark, a spokesman for the Federal Laboratory Consortium in Los Alamos. Other attempts to make some of the labs' information available by computer through the use of key words and databases was not successful because only a small part of the information in the labs is in such a form to begin with, and formal technical titles are indecipherable except to specialists.

Commercializing Innovation

Potentially the most controversial of Clinton's proposals is to put the federal government into the business of supporting certain important industries such as aerospace by forming company consortia to spread staggering R&D costs around and bring products out faster.

While advocates find the idea has a certain sensible ring—why not share the costs of building a supersophisticated research wind tunnel?—critics say the idea smacks of "industrial policy." That puts the government in the position of picking winners and losers, which most business people feel is the job of markets, not bureaucrats.

To that, Buddy Price, spokesman for Sematech, near Austin, Texas, says: "We don't pick winners and losers. We do generic research and development." Formed in 1987, Sematech is funded by $100 million in private money and $100 million in government money to keep U.S. integrated-circuit makers ahead of their global competitors.

The consortium consists of 10 companies, among them IBM, AT&T, Intel, Hewlett-Packard, and National Semiconductor, down from the original 14 six years ago. One was merged out of existence; three—LSI Logic, Harris Corp., and Micron Technologies—left because of squabbles over Sematech's direction.

Still, in the view of most technical professionals, Sematech's report card is good—not bristling with success, but good. After a couple of mission changes, Sematech has played a role in turning around the U.S. chip industry and increasing exports in last year's fourth quarter to more than 20 percent of the Japanese market.

Allan Meltzer, a fellow at the Washington-based American Enterprise Institute and a professor at Carnegie Mellon University, in Pittsburgh, says there is a role for government in basic research, but he's wary of anything beyond that. "If the government invests in technology, it almost inevitably will have some winners," he says. "The question is will it have as good a batting average as if those resources were used privately." Private venture capitalists, Meltzer says, quickly pull the plug when companies fail; he doubts if government would do that because "closing failures means putting people out of work."

Says a veteran engineer in California's Silicon Valley: "American companies just don't take to this consortium approach very well." And George Peak, general manager of the Memphis, Tenn., office of Insituform, a pipe-restoration company, says "the idea has merit," although he worries about just how the mentalities of government and business will mix.

Clinton wants to continue funding for Sematech through 1994. And there is talk in the administration of forming a similar outfit called Aerotech to support the battered U.S. airplane-making industry.

Robert X. Cringely, a wry and witty computer journalist and author of *Accidental Empires*, a book about the rise of the U.S. microcomputer business in the 1980s, says surfing is the perfect metaphor for the industry and, by inference, for high-tech businesses in general.

A surfer climbs aboard the biggest wave he can handle at the right time and stays on it just long enough to impress the judges onshore, then quickly jumps to a new wave. Too long on the wrong wave and the surfer runs the risk of falling off. The more waves and the more tricks, the more points.

Could any government-industry effort perform that deftly? Well, maybe yes and maybe no. The Clinton administration says that its goal is to encourage U.S. companies to switch waves faster. NB

Transferring Technology

The Federal Laboratory Consortium for Technology Transfer maintains six U.S. regions for business executives who want to tap into the federal lab network. The regional telephone numbers are: Far West, (619) 553-2089; Midcontinent, (210) 536-3817; Midwest, (708) 252-5391; Southeast, (615) 632-6435; Northeast, (518) 266-4946; and Mid-Atlantic, (202) 787-3744.

The consortium also publishes a 220-page directory of resources, *Tapping Federal Technology: Inventions, Expertise, and Facilities*. It is available for $18 by writing to Federal Laboratory Consortium, Attention Publications, P.O. Box 545, Sequim, Wash., 98382-0545.

To order reprints of this article, see Page 80.

BENEFITS

Health Reform Aims At Workers' Comp

The White House may bring workers' comp medical benefits into national health-care reform.

By Roger Thompson

Workers' compensation, the last blank check in American health care, may soon be put on a financial leash. The Clinton administration is trying to figure out how to bring workers' comp medical benefits, which are free and unlimited to all workers, into national health-care reform.

The goal is to create a single health-benefits package that would cover all illnesses or injuries regardless of whether they arise on or off the job. In insurance lingo, the concept is known as 24-hour medical coverage. It would scrap the current system, dating from the turn of the century, under which workers' comp covers job-related injury and illness while employer-provided group health insurance covers everything else. The disability-benefits portion of workers' comp would remain unchanged.

In theory, 24-hour coverage would save billions of dollars by combining the administration of two separate health-insurance programs, reducing litigation over which system pays the tab, and applying money-saving managed-care techniques to workers' comp claims.

Medical claims paid by workers' comp totaled about $20 billion last year, accounting for 41 percent of all workers' comp benefit payments, up from 33 percent in 1980.

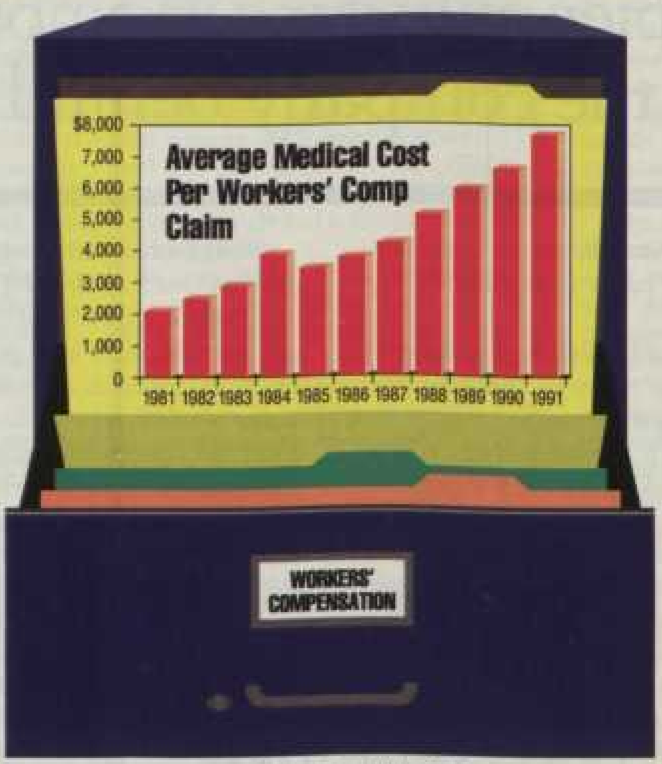
Ira C. Magaziner, manager of Hillary Rodham Clinton's Task Force on National Health Care Reform, acknowledged in mid-March that the group is "looking very carefully" at the idea of integrating the medical portion of workers' comp with health insurance.

Compared with national health expenditures last year of $832 billion, workers' comp medical claims appear small. Placed in a business context, they grow in significance, representing 10 percent of the roughly $200 billion employers paid last year for health care.

The administration's interest in 24-hour coverage caught almost everyone by surprise, especially the property-casualty insurers who write workers' comp policies. "No one understood that this was one of the things that they would take seriously," says Eric Oxfeld, assistant general counsel for the American Insurance Association, which represents 250 property-casualty insurance companies.

Once alerted, insurers have hurriedly assembled a new coalition of like-minded trade groups to defeat the idea. Says Oxfeld: "Pulling medical out of workers' comp would ruin workers' comp."

Some experts outside the insurance industry are less critical, but skeptical nonetheless. They see workers' comp and health insurance as distinctly different, if not incompatible. (See the box on Page 36.)



SOURCE: NATIONAL COUNCIL ON COMPENSATION INSURANCE

"It's promising but scary," says Edward M. Welch, director of Michigan's workers' comp bureau from 1985 to 1990 and currently a professor of labor and industrial relations at Michigan State University. "I'm glad they are talking about it. It's no panacea."

Richard Victor, executive director of the Workers Compensation Research Institute, in Cambridge, Mass., agrees. "I don't think there is a compelling reason from a workers' comp point of view for [24-hour coverage] to happen," he says.

Others champion the idea. John F. Burton Jr., a professor of industrial and labor relations at Rutgers University and author of a widely respected workers' comp newsletter, drafted 1990 Florida legislation that permits the state to conduct pilot projects in 24-hour coverage. Burton has written that after more than 75 years of operation, "certain features of the present workers' compensation program may no longer be appropriate." As a paid consultant to the White House task force, however, Burton says he is barred from speaking about the issue until after President Clinton announces his reform proposal in early May.

Employers also like the idea of 24-hour coverage. "Our members strongly supported [a state pilot project], as long as it is voluntary," says Jim Brainerd, general counsel for the Florida Chamber of Commerce. In a survey of 716 midsize companies last year, the Towers Perrin consulting firm found that 63 percent saw advantages to treating occupational and nonoccupational injury and illness under the same health-care program.

According to some observers, the motivating force behind the administration's interest in 24-hour coverage is politics, not health policy. "The task force sees melding workers' comp into health-care reform as an attractive provision for small business," a key constituency to please, says Mike Dineen, vice president for federal relations for the Kemper National Insurance Companies.

Whatever the motivation, small business comes out a winner if paying one health premium in fact costs less than the present total cost of separate coverage. Promoting 24-hour coverage as a cost saver is the kind of sweetener the administration needs for convincing small business to swallow a bitter reform pill that almost certainly will include mandated coverage of all workers and minimum employer contribution levels.

Details of the administration's plan still have not been worked out. The veil of secrecy imposed by the task force makes it impossible to assess what President Clinton ultimately will propose. But this much is clear: Even among opponents of the 24-hour-coverage idea, there is broad

consensus that national health reform must somehow deal with workers' compensation.

Doing nothing while squeezing costs elsewhere in the health-care system would make workers' comp an easy target for those who want to exploit the last insurance program offering workers free, unlimited medical care. Under the status quo, insurers expect an avalanche of fraudulent claims, euphemistically characterized as cost shifting from group health plans.

The shifting would occur as workers seek to escape the out-of-pocket costs, benefit limits, and possible premium taxes expected under a reformed health-care system. In addition, doctors and hospitals would have strong financial incentives to shift claims into a workers' comp system that pays generous fees for unlimited services. By contrast, health-care reforms most likely will cut providers' incomes through the use of managed care and possibly impose national spending limits.

"If there is a global budget [a national health-care spending limit] and workers' comp is left outside of it, comp is a dead duck," says Oxfeld.

James N. Ellenberger, assistant director of health policy for the AFL-CIO, echoes that concern: "If workers' comp is left out of health-care reform, it would take medical providers and all the various consulting operations that hang on to this system about a millisecond to figure out how to play the system and come out ahead."

Given the legitimate fear of doing nothing, it's not surprising that the Clinton administration is considering 24-hour coverage. Despite its allure, the idea is fraught with integration problems that defy easy solution. Among them:

■ Group health insurance generally requires workers to pay part of the cost through deductibles and coinsurance. It is widely assumed that 24-hour coverage would follow this pattern. While cost sharing is recognized as an effective way to restrain unnecessary use of medical services, labor unions strongly oppose it as a feature of 24-hour coverage. "Any program with co-pays or deductibles is unworkable," says Ellenberger.

■ Benefit levels under group health plans generally don't cover unlimited physical therapy, rehabilitation, or long-term care, all of which are included in workers' comp. Bringing medical coverage under a 24-hour plan up to workers' comp levels "would bankrupt the health-care system," says Oxfeld.

■ Historically, employers have paid for workers' comp insurance in exchange for freedom from liability suits from injured workers. Critics argue that cost sharing under a 24-hour plan would unravel this labor-management tradeoff that is fundamental to workers' comp and would open the door to lawsuits against employers.

■ Workers' comp premiums have a built-in safety incentive because unsafe businesses pay higher rates than businesses with good safety records. This kind of experience rating runs counter to the administration's desire to impose community rates based on average costs spread across large numbers of people. But without experience rating, employers would have less incentive to maintain safe workplaces.

Coming up with solutions to these complex problems may be more than the White House task force can manage in time to include a 24-hour-coverage proposal in its recommendations to President Clinton. If that is the case, action most likely will shift back to state legislatures, where workers' comp is controlled.

Runaway workers' comp medical costs already have pressured some states to consider 24-hour coverage. Florida became the first state to act on 24-hour coverage when it passed legislation in 1990 authorizing pilot projects. To date, because of unclear wording in the initial legislation, no pilots have been launched. More recently, California, Georgia, Maine, and Massachusetts also have authorized 24-hour-coverage pilot projects.

State lawmakers expect the biggest savings would come from applying managed-care techniques to workers' comp medical claims. These include the use of prepaid health-maintenance organizations and preferred provider networks that offer fee discounts.

While managed care has been shown to save money, state laws stand in the way of bringing these techniques to workers' comp. Roughly half the states prohibit employers from directing injured workers to designated medical providers.

Insurers agree that managed care works. But they reject the argument that it takes 24-hour coverage to bring aggressive medical-cost management to workers' comp.

With appropriate changes in state laws or with congressional action, there is no reason managed care can't be delivered within the current workers' comp system, says Keith T. Bateman, vice president for policy development with the Alliance of American Insurers.

Whatever direction the administration takes, it appears that the debate over 24-hour coverage is only just beginning. NB

Comparison Of Workers' Comp And Health Insurance Coverage

	WORKERS' COMP	HEALTH INSURANCE
Coverage of Employers	Required by law of nearly all employers.	Voluntary.
Coverage of Employees	Required by law, including part-time workers.	Voluntary, and may include dependents.
Waiting Period for Eligibility	None; coverage begins immediately.	Variable, typically after one to six months.
Pre-existing Conditions	Covers all injuries and illnesses arising from work, including aggravation of pre-exisiting injuries.	Variable; typically excludes pre-exisiting conditions for several months or longer.
Type of Coverage	Provides all reasonable and necessary medical care.	Varies with health plan and state mandates.
Dollar Limits	None.	Most plans have lifetime dollar caps.
Deductibles and Copayments	Prohibited by law.	Standard. Deductibles typically range from $250 to $500. Copayments typically range between 20% and 30% of charges.
Employee Contribution to Cost of Insurance	None. Fully paid by employer.	Most plans now require some level of employee cost sharing.

SOURCE: AMERICAN INSURANCE ASSOCIATION

CHARTS: AMY PUGLISI

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IBM began by installing an AS/400,* then we brought in an IBM Business Partner to customize software that's fast, flexible and easy to expand.

Says Mr. Velasquez, "People call us 24 hours a day, and it only takes one or two questions for full information to appear on the screen. We can give immediate help and schedule follow-up counseling in one phone call. That's customer service.

"We're handling 60% more claims a day, and, thanks to image processing, a job that once took 1½ hours now takes 20 seconds. That's productivity."

The future's even brighter. Working with Granada Systems (another IBM Business Partner), Managed Health Network is integrating IBM DirectTalk,* software that answers simple phone queries, with IBM CallPath,* an application that instantly gives customer information to human operators.

IBM also helped with a more basic issue, budget. The IBM Credit Corporation* extended financing with payments designed around the customer's fast growth path and unique cash flow requirements.

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INSURANCE

Business Lessons From A Disaster

By William D. Harrel and John S. DeMott

If ever there was a case for business-interruption insurance, it was made pointedly when an explosion rocked New York's World Trade Center, sending it into darkness for weeks and forcing nearly 350 small and large companies to do business elsewhere in makeshift quarters.

Herb Abbe knows. Owner of H. Abbe International, a travel agency and freight forwarder on the 28th floor of Two World Trade, he relocated his two computers and 11 employees to the nearby offices of accommodating lawyers, who happened to be clients. Abbe worked from there for a month before getting the go-ahead to move back to his old office.

Abbe says his insurance broker had never offered him business-interruption insurance. The disruption has cost him about $70,000 in lost business and moving expenses, says Abbe. "It's going to have to be taken out of retained earnings." In addition, he had to lay off four employees.

Even with the scars of the disruptive experience, Abbe isn't sure if he'll buy business-interruption coverage. "It wasn't offered to me when I started 15 years ago. I don't know what the premiums are. If they were expensive before, they'll probably be more expensive in the future. Right now, there are more important things. We have to do the best we can under trying circumstances."

> "If you have clients, you can't afford to be out of business."
>
> —Lawrence Drake

Despite his losses, Abbe isn't angry: "You know, New York gets a bad press, a bad rap. I happen to like New York. This is the price we pay for living in a democracy. We want to be open. We want to have conveniences, like public parking in the building. You know? Sooner or later, you knew that terrorism was going to come to this country."

In addition to leaving six persons dead and injuring about 1,000 others, one of America's worst man-made disasters resulted in at least $510 million worth of property damage and loss of business, says the Property Claim Services Division of the American Insurance Services Group.

The World Trade Center's insurance lessons for business owners are:

■ Be sure to ask your insurance agent about business-interruption coverage. It pays what you would have earned, based on your records, had the interruption not happened. A good agent should suggest it and require that your rejection of it be in writing.

■ Be sure that your business-interruption insurance covers your company for more than just a few days. A week's worth of protection in the World Trade Center disaster wouldn't have been enough; most tenants were shut out for at least a month.

Says Loretta Worters of the Insurance Information Institute: "A lot of small businesses say, 'I can't imagine not being able to get back to work in a week.' They're going to have a problem."

■ Depending on your kind of business, consider buying "extra expense" insurance to pay for temporary relocation of people and machinery so you can get back in business fast, says Lawrence Drake, managing director of Marsh & McLennan, an insurance broker that itself has 800 employees in the World Trade Center.

While extra-expense coverage adds to the cost of ordinary business-interruption insurance, the dollars spent for relocating can be greater than revenue lost from interrupted business.

Says Drake: "This is what's really critical. If you have clients, you can't afford to be out of business at all, or someone will take them over. It can be a very substantial expense—especially if everyone else is doing the same thing."

The thing to remember is that the right type and degree of business-interruption insurance can keep your business alive if disaster destroys your company or if thieves walk off with your equipment.

Joe Riney Jr. was protected. His turn-of-the-century mattress manufacturing and retail company on East Market Street in Louisville, Ky., sustained heavy fire damage in April 1989.

Though its plant closed for a year for repairs that cost over $200,000, the business itself kept going.

In addition to covering reconstruction costs, insurance helped Riney relocate manufacturing to a leased facility until the old building was restored. Production resumed in three weeks, and the company's retail operations were consolidated in its other store.

"We probably would have survived without insurance, but we would have been in debt for a long time," says Riney, the third generation of his family to run the business.

Clearly, it's important to shop for an insurance policy designed to get you up and running as soon as possible. But what kind of policy should you buy? Here are some points you should consider:

Type Of Coverage

Most businesses have to be concerned about covering two major types of risks: property loss and liability for injuries. Large companies typically purchase separate policies for each, but small and midsize companies frequently buy packaged policies that cover both types of exposure.

The most popular such package is the Business Owners Policy, or BOP. This type of policy is designed specifically for small offices, retail stores, apartment

PHOTO: RENATO ROTOLO—GAMMA LIAISON

Darkened towers: *Many of the World Trade Center's 350 tenants were kept from doing business for at least a month while repairs and safety renovations were made.*

Here's how to protect against the costly aftershocks of calamities that can interrupt your business.

houses, and certain types of small service businesses, according to Sean Mooney, senior vice president of the Insurance Information Institute and author of *Insure Your Business* (Insurance Information Institute Press, 1992).

The advantage of a BOP is that it is generally less expensive than separate nonpackaged policies. A disadvantage is that it is not very flexible. Certain small businesses—restaurants, garages, wholesalers—may not be eligible for a BOP because of their specialized insurance needs or their high-risk liabilities.

BOPs come in two basic forms, based on guidelines established by the Insurance Services Office, an industry group. The standard policy is limited to specified risks; the special policy covers all risks. Both cover buildings and most business property on a replacement-cost basis. But the standard policy offers optional coverage for burglary and robbery, while the special form offers optional coverage for money and securities.

An insurance agent can explain other exclusions and limits. For example, certain kinds of property such as cars, boats, and aircraft are excluded from the special BOP.

Those who do qualify for a BOP package should pay attention to optional coverage, says David Adler, risk manager for the Portman Companies, an Atlanta real-estate firm. "Many businesses have inadequate coverage. But not in the amounts they insure for," says Adler. "Instead, the type of coverage they choose is lacking."

Whether you purchase a BOP or separate policies, it is essential that you adequately cover your disaster contingency needs. The best way to determine whether a policy is right for your company is first to discuss your situation with your insurance agent. Make sure the agent understands the value of your equipment, buildings, auto and truck fleets, and everything else essential to your firm for conducting business. Make sure also that both of you understand what it would cost and how long it would take to get your doors open again after a disaster. And before agreeing to a policy, have your accountant and attorney look it over.

Following are some key points you should look for when considering a Business Owners Policy:

■ **Replacement Cost.** Be sure your firm's equipment and property are insured for the cost of replacement at today's prices. With some policies, you must specify replacement cost. Even then, according to Donald Hurzeler, assistant vice president of marketing for Allstate Business Insurance, you shouldn't take for granted that everything is covered properly. "Just specifying that you want replacement-cost coverage does not always mean that you'll wind up with full coverage on all property. Check the policy language for limitations, and don't forget to consider insuring for improvements such as carpets and drapes," Hurzeler says.

■ **Extra Expense.** As the World Trade Center bombing demonstrated, when disaster strikes, businesses lose not only

profits but also clients, unless the company is up and running quickly. Extra-expense insurance would have paid Herb Abbe to relocate his machinery and also would have covered other costs of a rapid return to business, such as moving to a temporary location, buying or leasing replacement equipment, or stocking new merchandise. Make sure your extra-expense insurance also covers the salaries of key employees while they are out of work; you don't want to lose them to competitors.

■ **Liability Coverage.** BOPs provide the same kind of liability coverage as do separate general liability policies, but they impose caps on claims. For example, BOPs set a limit on total liability for medical claims as well as a maximum amount for individual medical expenses. Limits also apply to property damage and personal injury, such as false advertising. Liability limits imposed by BOPs may be too low for small companies engaged in lines of business with above-average risks.

PHOTO: ©RALF FINN HESTOFT/SABA

Don't assume *that everything is insured properly, says Allstate's Donald Hurzeler, and don't forget the carpets and drapes.*

How Much Is Enough?

Many companies are uncertain about how much coverage to buy. According to Adler, there are two guidelines:

First, don't purchase more coverage than your property is worth, because you can't collect the excess amount anyway when you make a claim.

Second, when buying business-interruption, extra-expense, or liability coverage, get enough so that you sleep well at night. The rule of thumb is to carry enough insurance to get you back into business without strapping the company's cash flow. Typically, this is about equal to what your property is worth.

Choosing An Insurance Carrier

The Insurance Information Institute's Mooney says that when you're evaluating an insurance company, you should check its financial stability and its reputation. Be sure the carrier has the wherewithal to handle your claims and has a good claims-paying track record.

Financial stability is easiest to check. A number of organizations—Standard & Poor's, Moody's, Duff & Phelps, A.M. Best, Weiss Research—rate insurance carriers on several factors. Ratings usually are letter grades, such as A+, B-, and so on. Some companies have no ratings.

Adler advises picking a company with ratings in the A range. "If you choose a company with a low or no rating, you are risking their not being there when you need them," he warns. Adler also says that you should check more than one rating service because the raters have different criteria for evaluating insurance carriers. Some require an interview with the CEO, for example; others evaluate solely on paper financial records.

PHOTO: ©JOE STEWARDSON

Don't insure *property for more than it's worth, says the Portman Companies' David Adler.*

To get ratings for insurers, you can ask your insurance agent or stockbroker, or you can ask a local library for the Standard & Poor's or A.M. Best ratings.

Checking how efficiently a carrier has paid claims can be slightly more complicated. Hurzeler says the best place to begin is your state's insurance department or insurance commissioner. Many state offices collect data on individual carriers. In some states, you can get a list of complaints, judgments, and other actions against carriers.

A word of caution: Many state insurance departments, say their many critics, are underfunded and overworked, and their information may be inaccurate or incomplete. New York, Michigan, and Florida have highly regarded insurance departments.

Another source is the Insurance Information Institute's toll-free number, 1-800-942-4252. Established for consumers, this number can be used by small firms seeking information about carriers.

Arguably the best sources are your contacts with other businesses. Ask them how they've fared with carriers. An insurer with many satisfied customers is a good risk.

Many businesses make the mistake of looking only for the lowest insurance premium. Says Adler: "Business insurance is not the same as paper clips. You should view it as similar to the services provided by your attorney or accountant. In a sense, they are partners in your business."

Says Allstate's Hurzeler: "We certainly understand that we profit most from long-established associations."

You can't establish such a relationship if you're forever switching carriers in a quest for the best deal. You'll have much better luck getting a claim processed quickly if you, your agent, and your carrier all understand one another. NB

William D. Harrel is a free-lance writer in Weaverville, Calif. Nation's Business *Senior Editor John S. DeMott specializes in coverage of the insurance industry.*

To order reprints of this article, see Page 80.

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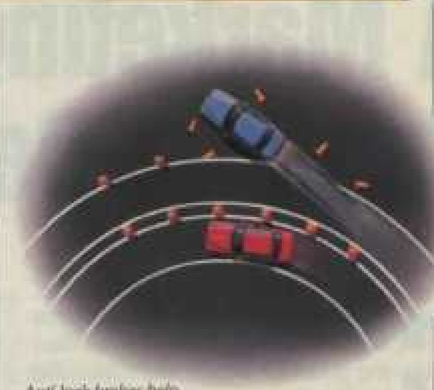

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MARKETING

A Marketing Plan You Can Design

By Arthur Feinglass

Consultants typically charge thousands of dollars to develop marketing plans for small businesses. But business owners can develop their own marketing plans and create winning marketing strategies without spending a dime.

All it takes is a realistic assessment of what you are selling, who your customers should be, and how you can best reach your most profitable markets.

The following eight steps can serve as building blocks in developing your marketing plan. This guide draws on your intuitive business sense as well as the knowledge and experience you have acquired over time.

ILLUSTRATIONS: GREG HALLY

1. List All Your Options

The first step in developing a marketing plan is to list all the possibilities for improving your business. Talk to as many people as you can, tapping all the information sources available. Make a list of everything that seems even remotely possible, from extending your hours to sponsoring a Little League team. Give your imagination free reign; you can narrow it all down later.

Ask your customers what they think about your product lines and services, and why. Ask about specific aspects of your operations, such as whether they find your hours convenient or your employees knowledgeable and courteous. Ask their opinions on your displays, lighting, decor, and location.

Get a sense of what your clients really want. Are they primarily interested in a wide selection? Or are they more interested in fast service? Are they more interested in the low-end line or the expensive, upscale items? Do they want self-service, or do they prefer sales clerks who are well versed in products and services?

Keep a list of their suggestions. Not all their ideas will be workable or even worthwhile, but you may be surprised at the number of valuable ideas they have to offer.

Don't overlook asking your employees what they think about your products and services. Think back to your first job; chances are there were things you felt your boss could have been doing better. And you may well have been right, since you had a special "from the trenches" perspective on daily operations. Wise business owners will encourage a free exchange of ideas between workers and management, appreciating that employees can be an invaluable source of ideas.

Talk to your suppliers and even your repair and delivery people. They spend a lot of time in other offices and stores, and often they have ideas about what works well and what doesn't. Usually they will be flattered and more than glad to share their opinions with you. Here, too, a lot of what you'll hear will be idle chatter. But amid the dross will be the occasional nugget of gold that justifies the effort.

Talk to other business people in your area. Find out what kinds of traffic flow they are experiencing and what kinds of customers are being attracted to the area. Look carefully at their window displays, and observe details such as decor, lighting, promotional displays, signs, and wall posters.

Regularly read trade journals to spot ideas that other people in your field have put to use.

Attend trade shows and conventions, and join local business clubs and associations; these are opportunities for meeting other business people and picking up workable marketing tips.

2. Step Into Your Customers' Shoes

Look at your business from your clients' point of view. Stand on the other side of the desk or counter to see how your business looks to them. Consider the choices they are offered—professional service, low price, large selection.

Always remember that customers buy for their own reasons, not for yours. If you were an optometrist with an eye-wear business, for example, you might have a deep appreciation of the state-of-the-art optical technology involved in your products. But a patient might only want to know whether a pair of frames is available in a shade to match a certain eye color.

Or you might take pride in your wide selection of fashion frames, while your patient's main concern is the availability of parking or the fact that the office is open three nights a week.

Observe traffic flow. Take a tip from the large drug store that offered three-day promotions and "all the roasted peanuts you can eat while shopping in the store." After three days, long trails of peanut shells wound through the store. The biggest piles of shells accumulated in front of the product displays and shelves that had drawn the most interest. The management learned a lot about traffic flow in the store and which displays were really the most effective draws.

Although you probably don't want peanut shells piling up on your floor, you should make a point of closely observing the behavior of your customers and noting what areas, products, and services attract the most interest.

3. Study Your Markets

It's essential to determine just who your customers are—both present and potential. The answers form the basis of all your marketing efforts.

Preparing individual profiles of all customers can help define them. You may be surprised at how much you already know—or can reasonably guess—about your customers. You make these judg-

Arthur Feinglass is president of his own consulting firm in Port Washington, N.Y.

This eight-step guide draws on your experience and your intuitive business sense.

ments every day based on the clues you read automatically, and often unconsciously, such as the way they dress, how they speak, their body language, and the charge cards they use.

Try to find out where your clients live. The obvious way is to ask new customers to fill out a form so that you can notify them about new products and benefits you will offer during the year. The addresses probably can tell you something about their lifestyles and priorities. You can also use the information for direct-mail and telemarketing purposes.

Then ask yourself: Who is buying which products? Why are they buying these products? Be realistic in determining which of your customers are profitable and which are not.

As a general rule, 80 percent of your profits come from 20 percent of your customers. Your goal should be to identify that 20 percent and focus your marketing efforts where they will do the most good. Don't be misled by the fact that some categories of customers appear bigger and more profitable than others. Sometimes a large customer group buys less than a small one.

A sound marketing plan directs attention to two kinds of customers: those who are profitable for you now because they buy a lot with little cost to you, and those marginal customers who can be upgraded to become more profitable for you. Remember, what you are seeking is profitable customers.

4. Segment Your Market

You cannot be all things to all people. Your time, energy, and money are limited. So rather than try to reach absolutely everybody, you should narrow your target market to concentrate on specific segments that you can reach effectively.

The trick is to break your market down into small, manageable units—such as single professional women in their 30s, or blue-collar men in their 40s—until you have your target markets clearly defined. You can then concentrate on specific segments to attract more customers who share the characteristics of that segment.

After identifying your market segments, rank them according to profitability, size, and the share of your market they represent now and are likely to represent in a year or two. Group them into four categories: Most Likely, Likely, Maybe, and Not Likely.

Your "Most Likely" market segment will consist of people who are actively searching for the kind of product you are selling, who understand and appreciate what you are selling, and who want to make a purchase.

The rule is to forget about the "Not Likelies" and to forgo the "Maybes" and the "Likelies" until you've done as much as you can with the "Most Likelies." In the real world of limited resources, you simply can't go after them all.

5. Observe Your Competition

Take a long, hard look at your competitors, both current and potential. Watch how they market their products and services. Identify the things that they do well that you can adapt for your own use. Look, too, for things that your competitors don't seem to be doing well. Learning from your competitors' mistakes is just as important as learning from their successes.

Determine who is buying from your competitors, and why. Are their prices lower? Products better? Selection greater? Hours longer? Advertising more intensive? After you make these determinations, you can decide how to attract those customers to your business. See what customers want, then give it to them.

6. Match Options With Markets

Now that you've studied your markets and your competition, go back to the list of options you created in Step 1. Choose the 10 options that make the most sense for your business. In ranking them, keep in mind their relative profitability, ease of implementation, and fit with your current product line and pricing.

Now look at the list of "Most Likely" market segments you made in Step 4, and match them with your list of 10 options. This should reveal several potentially profitable marketing strategies.

7. Write A Marketing Plan

Keep in mind that the basic rule of making a plan is KISS—Keep It Short and Specific. Five to 10 pages will do. Be sure to indicate specific costs and the length of time required for each phase of the plan. Your marketing plan might include the following:

- A brief description of your current markets, including why each market is a good choice for your business. Over the next several years, is that market likely to grow? To shrink? To remain stable?
- Suggestions for increasing your sales to that market, and a list of potential markets into which you can expand.
- A brief description of your current products and services.
- A list of suggestions for improving your product line and your range of services to enhance your appeal to current and potential markets.
- The specific cost of implementing those suggestions in terms of inventory, personnel, training, time, and money.
- A step-by-step timetable for implementing the suggestions, with specific marketing goals.

8. Review The Plan

Set realistic short-term and long-term goals for your company. Typical goals include increased volume of sales, higher levels of customer satisfaction, or expansion of potential markets. Be sure to incorporate a schedule for regular review of the plan's effectiveness.

You know your business better than anyone else. You know when to expect slack times and busy times. Take these regular business cycles into account when structuring your review schedule.

Review your plan monthly or seasonally with an eye to making whatever changes are necessary. Flexibility is the key to a workable marketing plan. Ultimately, your own business experience and judgment will be your guide. That, combined with a well-thought-out marketing plan, will help you direct your business effectively and achieve your goals of increased growth and profits. NB

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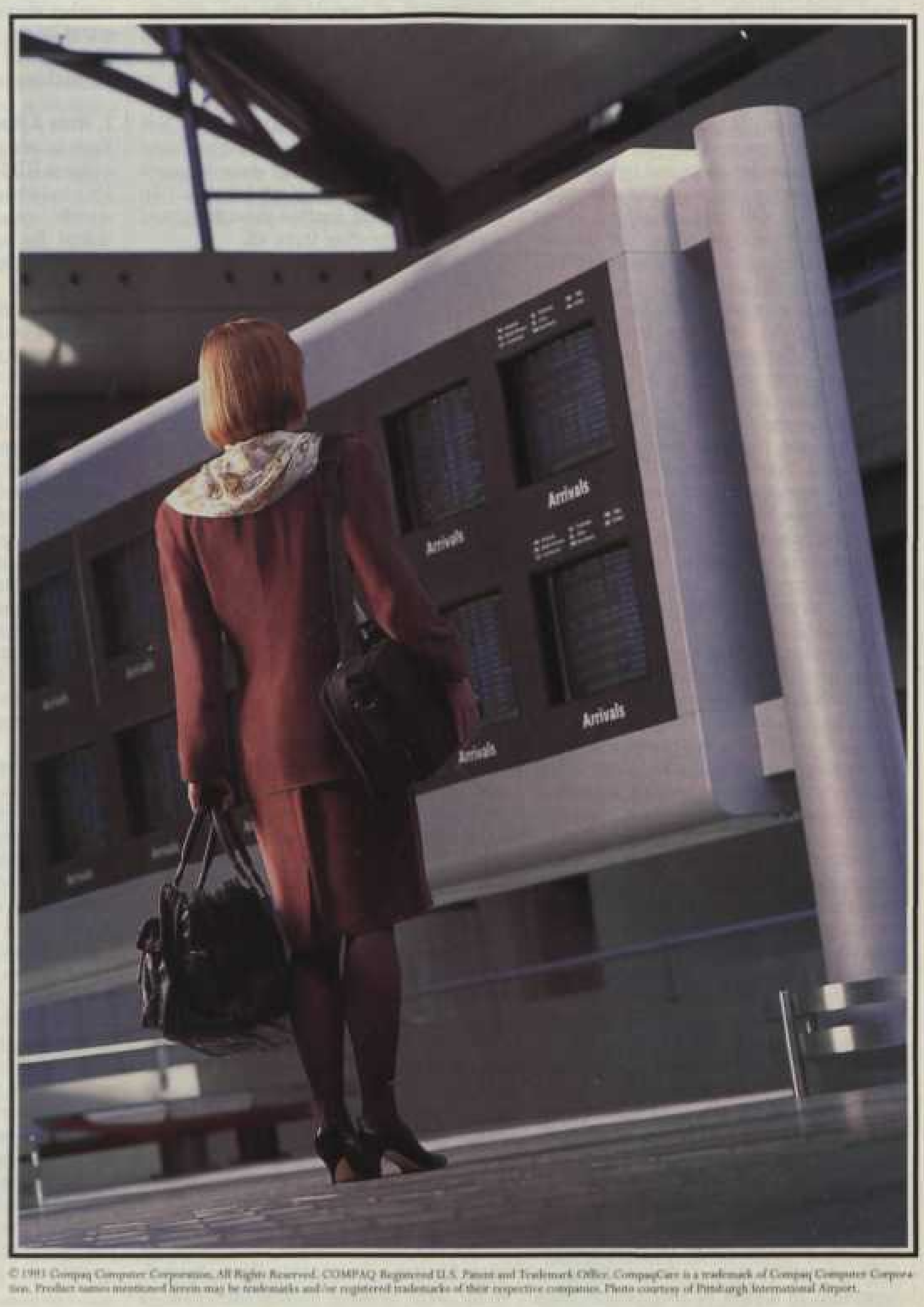
WHY NOTEBOOK DESIGN IS AND AIRPORTS AS IT IS ABOUT



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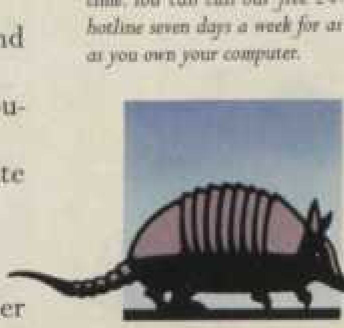

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SPECIAL REPORT

Leasing Helps Firms Control Costs

By Julie Candler

Thanks to lower interest rates and the increasing durability and improved fuel economy of late-model cars and trucks, transportation costs—including the costs of leasing—have stabilized, and for some businesses they are even lower than in previous years.

"Our overall leasing costs are stable because interest rates are way down," says Bob Wagner, fleet manager for Eaton Corp., a vehicle-component and electronic and electrical controls company headquartered in Cleveland. For Eaton's fleet of 1,800 leased cars and light trucks, he adds, "we are financing over $10 million. When we lease, we are sensitive to interest rates."

Wagner points out that price increases on 1993 car models are modest. And although Eaton's average new car costs about $15,500, Wagner says, prices often include safety accessories such as dual air bags and antilock braking systems.

Eaton and other businesses are also saving by increasing the cut-off mileage for vehicle replacement, which is possible, in part, because vehicles are more durable.

Better-built cars *make it cost-effective to keep leased vehicles for 65,000 miles, says Bob Wagner, fleet manager for Eaton Corp., in Cleveland.*

Until a couple of years ago, Warner-Lambert Co., a health-care and consumer-products company based in Morris Plains, N.J., used to trade in leased vehicles at three years or 55,000 miles, whichever came first, says Suzen Moye, who helps supervise the company's fleet of 2,700 leased vehicles. Now the policy is three years or 65,000 miles.

"By increasing the mileage, we have seen some increase in maintenance and tire expense, but this has been more than offset by our improved effective depreciation rates," says Moye.

At the end of the company's typical lease, it usually gets back at least as much as the 2 percent per month that was depreciated over the lease term.

Eaton also stretched its replacement policy to three years or 65,000 miles, beginning with the 1993 models. "It was cost-effective to keep them another 10,000 miles," says Wagner. "And resale values have been holding strong," he says, referring to resale-value clauses in open-end lease agreements.

Under such clauses, the company must return the vehicle it has leased—or a stipulated amount of money representing its resale value—at the end of the lease. A firm sometimes can sell a vehicle it has leased for more than the amount it owes the leasing company.

Wagner adds that now Eaton is "thinking about a replacement period of four years or 65,000 miles."

Leasing is popular for all categories of business vehicles. In a recently published survey of 515 corporate/business fleet managers, the National Association of Fleet Administrators, in Iselin, N.J., learned that 63 percent of the cars, vans, and trucks, including medium-duty and heavy-duty vehicles, in fleets of fewer than 200 are leased. In fleets of 201 to 400 vehicles, 78 percent of the same vehicle types are also leased.

One reason that leasing finds favor among business-fleet operators is that the vehicles can be off the balance sheet, says Richard V. Snyder, senior vice president of Enterprise Leasing Co. Snyder's company, headquartered in St. Louis, specializes in leasing to companies with fleets of 10 to 100 cars and light trucks.

If the vehicles are being purchased, the payments due show up as a liability on the balance sheet. That could affect borrowing limits. "Leasing," he adds, "can free up lines of credit with lending institutions."

Another possibility for companies is finance leasing, usually through a financial institution. Finance leasing offers advantages. It does not require an outlay of cash to acquire vehicles, and the company is not required to pay a monthly management fee to a leasing firm.

Finance leasing also permits fleet managers to make their own deals in acquiring vehicles from dealers, which means the company could get back a higher dollar amount on the resale of each car.

For companies with good cash flow, an alternative is capitalized leasing. Although still technically a lease, it permits vehicle ownership to remain with the lessee and show on the balance sheet. An accountant must decide if a lease agreement fits the accounting requirements for a capitalized lease.

A Trend Toward Employee-Owned Vehicles

More and more companies are saving money by moving away from both leasing and owning, choosing instead to have employees use their own cars for business.

Companies using only employee-provided vehicles grew from 7 percent in

Cost-effective fleet management can mean leasing vehicles, using common carriers, or reimbursing employees for driving their own cars for business.

1983 to 21 percent in 1991, according to a survey conducted by Runzheimer International, a Rochester, Wis., firm that tracks transportation costs. Increases in insurance costs have spurred the move, says Lee Czarapata, vice president of Runzheimer for sales and consulting services.

If an employee owns and insures a vehicle, Czarapata says, it is covered seven days a week for the employee and other family members, although many insurance companies charge a higher premium for vehicles regularly used for business.

PHOTO: PHILIP AMDAL

Using their own cars *for business benefits employees, says D. Bowen King, center, president of Puget Investments, in Seattle. From left are colleagues Bob Watson, Jim Soto, George Storgel, Larry Ohmie, and Wayne Hartman.*

Czarapata also reports that many companies providing cars to employees are limiting personal use of the vehicles outside of business hours. Under the Tax Reform Act of 1986, the value of personal use of a vehicle must be reimbursed to the company or included in the employee's taxable income. Czarapata claims many employees are saying: "Let me get my own vehicle. I pay the insurance and have no limits on the hours I can use it."

When employees use their own cars, they can receive nontaxable reimbursements as long as Internal Revenue Service guidelines are followed.

The system has worked well for Seattle-based Puget Investments, Inc. Five years ago, Puget eliminated company-owned cars. Now the company reimburses 22 employees, operating in the West and Alaska, for business miles.

"The method provides us a means to be fair with the employees as well as fair to the corporation. The employees seem happy with it," says D. Bowen King, president of Puget Investments. He adds that the system is simple and involves little paperwork. Employees merely report their business miles and odometer readings regularly.

The Move To Minivans And Light Trucks

As for the types of vehicles in business fleets, there is a continued trend toward light trucks and minivans, mirroring the same trend in the general vehicle population. In surveys by Runzheimer International, the year-to-year increases in the number of trucks and light vans in business fleets were 43 percent in 1986, 36 percent in 1988, and 32 percent in 1990.

In recent years, the Eaton fleet has doubled the minivan content of its fleet to 300 from 150, says Wagner. "Many sales and technical representatives prefer minivans," he says. "We feel the higher acquisition cost of about a thousand dollars is offset by the better resale value. We get it back."

Warner-Lambert recently added 150 minivans to its fleet, using them in new territories and as replacements for passenger cars. The vehicles provide more cargo space for the products that representatives must carry to replace depleted stocks on racks at stores they visit.

Trends In Medium- And Heavy-Duty Fleets

Leasing has grown among businesses using medium- and heavy-duty vehicles. In a 1992 survey of its members, the National Private Truck Council found that only 27 percent of those responding owned all of their vehicles, down from 31 percent one year earlier.

A glass manufacturing company in Talent, Ore., has cut maintenance and fuel costs since January 1992, when it signed a five-year lease on 11 new Mack CH612 tractors. Fabricated Glass Specialties uses the trucks to haul loads to a growing list of distributors, glass shops, and furniture makers as far away as Mexico and Canada. The new Mack E7-300 engines are achieving almost 10 miles per gallon—compared with the typical 5 to 7 mpg—and the leasing arrangement frees funds for an aggressive company expansion plan.

The lease, through a Mack dealer under the Allentown, Pa., truck manufacturer's Mack Leasing, covers drivetrain, engine, and other warranty repairs.

A full-service lease entered into by Broughton Dairies, in Marietta, Ohio, "will probably save at least $3 million over its six-year period," estimates Lloyd Westbrook, controller. After competitive bidding, Broughton opted for a transportation plan worked out for the company by PacLease of Seattle. Under the plan, the dairy firm has replaced half of its fleet with 14 T600 long-haul Kenworth tractors, 28 T400 medium conventionals, and two Kenworth Midliner straight trucks.

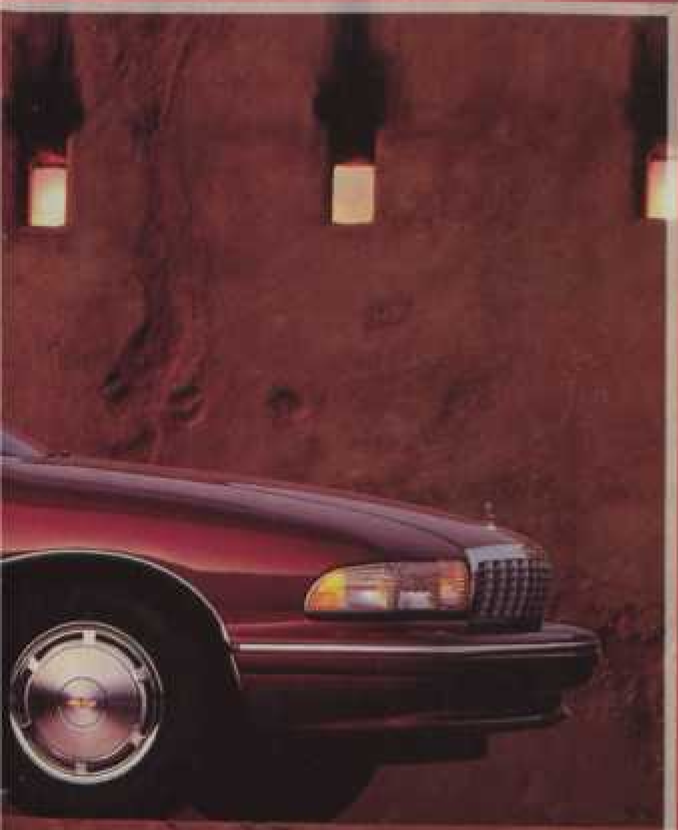
The new trucks handle deliveries of dairy products to three states and private-label cream and other dairy products to states east of the Mississippi. Westbrook estimates that fuel savings per truck will average about 20 percent.

A full-service lease from Ryder Commercial Leasing and Services, of Miami, saves time and therefore money for Zapp's Potato Chips, in Gramercy, La. Owner Ron Zappe began producing spicy

How To Avoid Looking Like A Mid-Size Company.

Chevy Caprice Classic.

Caprice's mid-size competitors like Ford Taurus LX and Honda Accord DX can put the squeeze on your clients and drivers alike.



Mid-size sedans can't offer them the luxury of Caprice's spacious interior. A business-size 20.4 cu.ft. of trunk room. Caprice's V8 performance. Or its almost 600-mile highway cruising range.* And Caprice Classic is actually priced less than Ford Taurus LX.† In fact, Caprice offers something that fleet drivers and customers may have thought was long gone: affordable full-size 6-passenger room that's still comfortably equipped, with standard air conditioning, stereo, Tilt-Wheel™ Adjustable Steering Column, even Scotchgard® Fabric Protector on seats, door panels and carpeting. Plus the important standard safety features drivers expect, like a driver's-side air bag.** And 4-wheel anti-lock brakes (ABS), an extra-cost option on Taurus LX. Chevy Caprice is backed by the biggest fleet sales and service organization in the business. Call Fleet Operations for details at 1-800-248-2897.

GM® *EPA Est. MPG city 17, highway 26. †Based on M.S.R.P. including dealer prep. Tax, license, destination charge and optional equipment additional. Levels of equipment may vary. **Always wear safety belts, even with air bags. Buckle up, America!

Chevrolet. The Heartbeat Of America.™

Cajun-style chips in 1985 (and he dropped the "e" in naming the company). The popularity of his Cajun Craw-Tators—available in seven flavors—has spread far beyond Gramercy.

In addition to the four 14-foot vans that the company owns and uses for delivering Craw-Tators to nearby customers, Zapp's has a full-service lease on two Freightliner single-axle tractors, which are used for deliveries to distributors in four neighboring states.

The advice from Zapp's fleet manager, Gasper Cardinale, is: "Leasing is the way to go. We owned two tractors previously, and I got tired of being awakened in the middle of the night by drivers telling me they had broken down. Leasing is a little bit more expensive, but it takes a big load off the person responsible for the trucks," Cardinale says. "Now we can concentrate on making potato chips."

PHOTO: KATHY ANDERSON

"Leasing is the way to go," *says Gasper Cardinale, fleet manager of Zapp's Potato Chips, in Gramercy, La. "It takes a load off the person responsible for the trucks."*

Saving With Common Carriers

Companies are also saving money by exploring different methods for managing transportation needs.

When Burlington Industries wanted to cut transportation costs two years ago, the company pared its fleet to 140 tractors from 340. The textile manufacturer, based in Greensboro, N.C., used the savings to expand into new markets. Tom Glascock, executive vice president and general manager, says Burlington reduced fleet size by relying on about 20 common carriers to make deliveries to distant destinations formerly reached by the 200 vehicles that had been eliminated.

"By using common carriers, we have in a sense a lot of unlimited capacity. Before, we were limited by what we could do with our fleet," adds Glascock.

Most of the 140 remaining tractors and 800 trailers handle shipments to and from Burlington's 58 plants in Virginia, North Carolina, South Carolina, and Georgia. The WHITEGMC and Navistar trucks are purchased on a five-year finance lease.

Use of common carriers is part of the service provided by Ryder when it provides dedicated contract carriage (DCC). With DCC, a firm contracts to supply trucks, drivers, labor and management, computer-based systems, and distribution design. More and more, this arrangement has been used in tandem with third-party logistics design, in which a company works out routing and distribution, lowest-cost arrangements, and coordination with other transportation methods.

Ryder notes significant increases over the past five years in the number of customers choosing to combine DCC with third-party logistics design.

"As a lead logistics provider," says Larry Mulkey, president of Ryder Dedicated Logistics, "we are given the responsibility of deciding on either common carriage or DCC or a combination. We are a third party. We manage the whole thing. We hire the common carrier if needed. We do the design work in terms of routes and service level required and time sensitivity. We play a 'what if' game to determine which scenario is best.

"The growth in lead logistic provider service is coming with the larger companies, but it is applicable for the small business looking at competing with the service of larger firms. By customizing the service, you are saving money."

A final bit of money-saving advice comes from R. A. Pennell, product manager for medium-duty trucks at the GMC Truck Division. "All of us, including fleet managers, should take some time out and analyze our costs," says Pennell.

Whether a company owns or leases its vehicles, a business-as-usual approach to transportation is not likely to result in significant cost savings. NB

Firms That Lease Trucks And Cars

Among the most prominent truck rental and leasing firms in the U.S. are:

AMI (Automotive Management, Inc.), P.O. Box 986, Worcester, Mass. 01613; (508) 852-5311.

NationaLease, One South 450 Summit Ave., Suite, 300, Oakbrook Terrace, Ill. 60181; 1-800-729-6857.

Penske Truck Leasing, L.P. Route 10-Green Hills, P.O. Box 563, Reading, Pa. 19603-0563; (215) 775-6000.

Rollins Leasing Corp., P.O. Box 1791, Wilmington, Del. 19899; 1-800-752-2677.

Ruan Transportation Management Systems, 666 Grand Ave., 3200 Ruan Center, Des Moines, Iowa 50309; (515) 245-2500.

Ryder Systems, Inc., 3600 N.W. 82nd Ave., Miami, Fla., 33166; (305) 593-3726.

Companies that lease cars and light trucks for business fleets include:

Mike Albert Leasing, Inc., 10340 Evendale Drive, Cincinnati, Ohio 45241; 1-800-886-5828.

Associates Leasing, 2728 Coho St., Madison, Wis. 53713-4532; (608) 271-8944.

ARI (Automotive Rentals, Inc.), 9000 Midlantic Drive, Mount Laurel, N.J. 08054; (609) 778-1500.

Donlen Corp., 500 Lake Cook Road, Deerfield, Ill. 60015; (708) 831-0400.

Enterprise Leasing Co., 8850 Ladue Road, St. Louis, Mo. 63124; (314) 863-7000.

GE Capital Fleet Services, Three Capital Drive, Eden Prairie, Minn. 55344; (612) 828-1000.

Lease Plan International, 180 Interstate North Parkway, Suite 400, Atlanta, Ga. 30339; (404) 933-9090.

McCullagh Leasing, 30803 Little Mack Ave., Roseville, Mich. 48066; 1-800-521-7850.

PHH FleetAmerica, 307 International Circle, Hunt Valley, Md. 21030-1337; (410) 771-1900.

United States Fleet Leasing, Two Waters Park Drive, San Mateo, Calif. 94403; (415) 572-2000.

Wheels, Inc., 666 Garland Place, Des Plaines, Ill. 60016; (708) 699-7000.

World Omni Leasing, Inc., 800 Fairway Drive, Suite 200, Deerfield Beach, Fla. 33441; (305) 360-4800.

MANAGING

Check References With Care

Here are tips to help you hire the best people possible without getting sued.

By Paul W. Barada

ILLUSTRATION: DAVID CHEN

Reference checking has turned into a legal minefield for employers. Lawyers typically advise that when you are asked about one of your former employees, you should say little or nothing. Negative comments could get you sued for defamation. But when you're the employer trying to hire a new worker, you want to know as much as possible about the job applicant. How do you get what you need without invading an applicant's privacy?

No one ever said hiring would be a breeze. But it can be managed with minimal concern over legal pitfalls by following certain guidelines.

As an employer, it's important for you to know what you can say when you get a call from someone checking references. There are two schools of thought: First, there is the "don't tell them anything" perspective. Second, there is the "honesty is the best policy" approach. Both views have their merits.

Your lawyer's primary objective is to prevent even the slightest risk of your becoming embroiled in an expensive lawsuit claiming that what you said kept a former employee from getting a job.

Moreover, lawyers are trained to think in terms of the "worst case" scenario. As a general rule, lawyers contend, there is a direct relationship between how much you say about a former worker and how likely you are to be sued. Hence, the more you say, the greater the risk.

That's why many companies give only basic data, such as starting and termination dates and last title, when asked about former employees. But as with any matter having legal ramifications, it's advisable to obtain legal advice.

The "honesty is the best policy" approach rests on the belief that truth is an absolute defense. Thus, if a former employee was fired for chronic absenteeism, it's permissible to say so.

Most courts have recognized that comments between a former employer and a prospective employer about an individual's work history constitute a "conditional privilege." This means that you can't be held liable for defamation unless it can be shown that you intentionally lied about a former employee. Facts honestly given or opinions honestly held constitute a solid defense against defamation claims.

Another reason to avoid a "no comment" policy is that it's a disservice to a good former employee. Nothing puts up a "red flag" in the mind of the prospective employer quicker than a reference who is unwilling to talk about a former employee. If a former employer refuses to comment, the caller may assume it's because something is wrong with the applicant.

Yet another reason for the former employer to be truthful is to avoid continually passing around the "bad apple" who really doesn't perform well.

If a former employer can be held accountable for intentionally saying a good employee performed badly, the courts one day may rule that the reverse—saying a bad employee performed well—is equally impermissible, particularly if the former employer is aware of a possible risk of harm to others.

When talking about a former worker, stick to job performance. Venturing into matters not related to work puts you on shaky legal ground.

Avoiding potential legal problems when giving references is only half of an employer's problem. The other half is taking the appropriate steps to check references.

The first step is to understand that a person seeking employment has a responsibility in the hiring process. All candidates should be asked for the names of appropriate business or professional references and also for written permission to contact them. This reduces the risk that a job seeker will accuse a prospective employer of invasion of privacy.

Appropriate references include individuals the candidate has worked with during the past five to seven years. Asking a candidate to supply the references also increases the likelihood that they will be individuals who will cooperate when called.

Every prospective employee should be asked to sign a comprehensive waiver that grants the prospective employer or agent permission to contact references. A properly written waiver releases from liability former employers, business references, and others who may furnish information about an individual's past job performance and work history. It also can authorize checks of court records and the verification of the applicant's educational history and other credentials.

Courts consistently have held that employers have a "legitimate business interest" in checking references and other relevant background information on prospective employees. Even the act of applying for a job has been construed by

Paul W. Barada is president of Barada Associates, Inc., a reference-checking firm in Rushville, Ind.

some as an implied waiver of the right to privacy.

A signed waiver, however, no matter how comprehensive, will not relieve a prospective employer from a negligent-hiring lawsuit for relying on information he or she "knew or should have known" was false.

A court could hold that the prospective employer "knew or should have known" the information from a single reference was false. Interviewing a minimum of three references is one of the surest ways to avoid a charge of negligent hiring.

If three references say a former employee was fired for stealing, the prospective employer is on far safer ground in denying employment.

By contacting at least three references, the prospective employer can more accurately judge the reliability of job-performance information and also demonstrate that "reasonable care" was used in the hiring process.

References should be contacted before any job offer is made. If an offer is made contingent upon reference checking, and if negative information then is discovered and the offer is withdrawn, the applicant can reasonably infer that the action was taken because of something that occurred during the reference checking. This could open the door to an allegation of wrongful denial of employment.

Questions asked of references should be related exclusively to past job performance. What a candidate does on his or her own time is none of the prospective employer's business unless it would have an adverse effect on the individual's ability to do the job.

For example, a candidate's religious beliefs would not be an appropriate topic for discussion unless the individual disrupted the workplace and upset co-workers with attempts to convert them.

How the interview questions are asked is another key to getting an objective assessment of the candidate's performance and abilities. Asking a reference to describe a candidate's management style, for example, makes it very difficult for the reference to second-guess the style that a prospective employer wants. Several references may describe the candidate as having a great team-building management style. But if the prospective employer needs a manager who can delegate effectively, the team-building strength may simply not be right for the job.

When a reference named by a job applicant refuses to comment, ask the applicant to contact the reference and urge him or her to respond, or ask for the names of other references who will respond.

To avoid the problem of a candidate providing best friends as references, a prospective employer should ask for very specific types of references, such as an immediate supervisor. Other references

could include subordinates, peers, or clients. If a candidate says references cannot be provided, that should be a red flag to the prospective employer.

Degrees and other credentials should always be verified. Falsifying them is a common deception, but fortunately they're items that are easily checked.

Although hiring someone who falsely claims to have a degree in business may not seem terribly serious, failing to verify a physician's degrees and license, for example, can be extremely serious from a negligent-hiring standpoint.

Finally, basing an employment decision on anything that is not linked to the candidate's ability to do the job could result in a charge of wrongful denial of employment, invasion of privacy, or both.

Clearly, the goal of checking references is to hire the best people possible while sidestepping possible legal entanglements.

The key is to get the candidate involved in providing reference information and smoothing the way for checking with former employers.

Hiring may not be a breeze, but reference checking can be handled without kicking up a legal storm. NB

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How To Avoid Credit-Check Hazards

By Scott S. Moore and Annette K. Burwell

Employers increasingly are turning to consumer reporting agencies to investigate the credit and personal histories of job applicants. Unfortunately, many employers are not aware of the penalties for failure to disclose this type of investigation to the prospective employee.

Under the federal Fair Credit Reporting Act, employers must abide by various disclosure rules; failing to do so exposes the employer to possible civil and/or criminal penalties.

The law covers two types of reports: credit reports and investigative credit reports.

A credit report refers to any written or oral communication made to an employer regarding an individual's general credit worthiness, credit standing, personal characteristics, general reputation, or mode of living.

An investigative credit report develops the same essential information, but it goes farther. It derives information from interviews with people who are close friends, neighbors, and associates.

When using credit reports, there is one basic requirement to follow: If you deny an applicant or employee a job or promotion based partially or wholly on information in the report, you must notify the person of that fact.

The applicant or employee has a right to review the entire report, demand a reinvestigation, and give his or her own version of the statements in the report. Remember also that reports obtained from the major nationwide consumer credit reporting bureaus may contain erroneous information that has yet to be identified and corrected.

The rules for investigative credit reports are more strict. Within three days from the time the report is requested, the employer must deliver written notice to the job applicant or employee. The notice must state that a report has been requested and that it will contain information on character, general reputation, personal characteristics, and lifestyle.

Upon written request, the applicant or employee has a right to be informed of the nature and scope of the investigation. To obtain the entire contents of the report, the applicant must submit a written request to the consumer reporting agency.

While complying with these disclosure requirements is a hassle, failure to do so can produce a costly lawsuit. NB

Scott S. Moore and Annette K. Burwell are with Berens & Tate, an Omaha, Neb., law firm that specializes in labor and employment law.

MANAGING

Responding To Change

By Michael Barrier

Its revenues run around $1 billion a year, and it has 5,400 employees, but the specialty-steel manufacturer Allegheny Ludlum Corp. in some ways resembles a successful small company—and not just because it serves a relatively narrow market in an industry still dominated by larger firms.

Like so many of their small-business counterparts, Allegheny's senior managers know their business from the inside out; they are metallurgical engineers, rather than accountants or lawyers. They have run the company for more than 20 years, and they have a powerful interest in how well Allegheny performs, because they own more than 40 percent of its stock.

For such reasons, what Allegheny has been doing in recent years may strike a chord in many small-business people. Allegheny has responded to the pressures of a rapidly changing, ever more competitive marketplace through a quality program that assigns productive roles to both people and machines.

Allegheny, headquartered in Pittsburgh, has long embraced the tools of quality management—it has been using statistical process control, for instance, for more than 30 years. In that time, the environment for American manufacturers of all kinds has changed radically. Consistently high quality—once regarded as a frill by manufacturers intent on spewing out goods—has become essential to survival.

Today, says Jack W. Shilling, Allegheny's vice president/technical, defective steel simply cannot be tolerated: "The customer gets very upset when they stamp 2 million pieces and 100 of them crack. The idea that it's OK if 80 percent of them don't crack—that's been gone for 15 years."

As Shilling says, "To squeeze the last rejection out of the process is tricky." In a business as capital-intensive as steel, solving such quality problems has particular urgency: Every time Allegheny has to scrap or rework a coil of steel, it effectively diminishes its very expensive production capacity. "We've been trying to increase capacity to serve a growing market," says David S. Dunn, Allegheny's quality-assurance director. "One way to do that is by cutting down rejections."

For a long time, machines took priority. As Shilling says, "Allegheny is a very technology-driven company. We had some consultants come in, and they told us that we had the most complex combination of products and processes they'd ever seen."

Allegheny is in fact a giant recycler. Unlike the so-called integrated steel companies, whose basic raw material is iron ore, Allegheny starts with scrap like old cars, to which such "virgin materials" as chromium and nickel are added, to make stainless steel (which accounts for most of its sales) and high-value alloys. Allegheny is the largest manufacturer of such specialty steels; its output goes into

Striking the right balance between people and machines can be the key to a successful quality program.

products as diverse as cookware, the handle of Gillette's Sensor razor, and the shutter doors for 3½-inch computer diskettes.

To control the complexity, Allegheny has for many years relied on computers, to the point that now paper has been banished from most production floors. Allegheny is writing software that will, in Shilling's words, "load every order, when it's entered, exactly onto the mill equipment that will be used, in terms of minutes of production time, so we can make maximum use of our equipment."

That software is the only missing piece in an otherwise comprehensive computer system whose hallmark is a free flow of information. The data generated by each piece of equipment is available not just on the production line but throughout the company. Thanks to such data, many quality problems can be isolated, analyzed, and solved "in a matter of days," Shilling says, instead of the weeks or months that solutions required in the past.

So thoroughly are Allegheny's production lines controlled by computers that operators might seem almost superfluous. "We've taken the operators out of some of the things they used to be involved in," Shilling says. "No question about that."

But, he adds, well-trained workers are still critical: "You need a mixture of things in the steel industry" to have a successful quality program. "If you don't have good technology, you will not be successful. But you need a lot more than that. Most of our competition can go out and buy the same technology that we have"—and in a few cases, for certain machines doing certain things, competitors have bought even better technology.

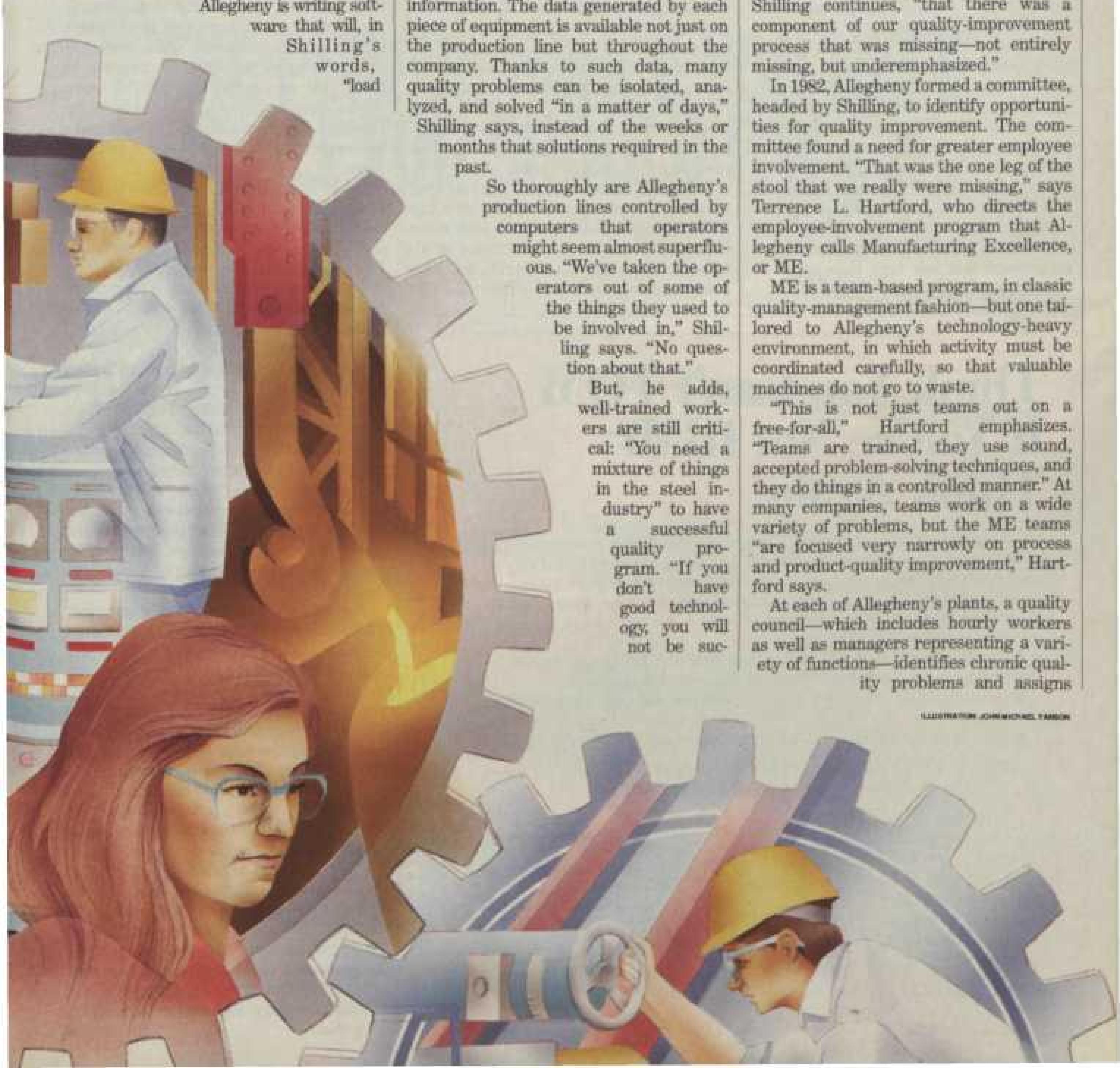
"We realized back in the early '80s," Shilling continues, "that there was a component of our quality-improvement process that was missing—not entirely missing, but underemphasized."

In 1982, Allegheny formed a committee, headed by Shilling, to identify opportunities for quality improvement. The committee found a need for greater employee involvement. "That was the one leg of the stool that we really were missing," says Terrence L. Hartford, who directs the employee-involvement program that Allegheny calls Manufacturing Excellence, or ME.

ME is a team-based program, in classic quality-management fashion—but one tailored to Allegheny's technology-heavy environment, in which activity must be coordinated carefully, so that valuable machines do not go to waste.

"This is not just teams out on a free-for-all," Hartford emphasizes. "Teams are trained, they use sound, accepted problem-solving techniques, and they do things in a controlled manner." At many companies, teams work on a wide variety of problems, but the ME teams "are focused very narrowly on process and product-quality improvement," Hartford says.

At each of Allegheny's plants, a quality council—which includes hourly workers as well as managers representing a variety of functions—identifies chronic quality problems and assigns



them to teams on the plant floor. Membership on an ME team, which has five to eight members, is voluntary; the plant's quality council recruits team members from among the managers and hourly workers affected by the problem. An ME coordinator trains the members in statistical techniques, team-building, and the like.

The quality council must approve changes that an ME team wants to make, Hartford says, "so that we don't have a lot of teams out there changing things that our managers don't want them to change." If a team wants to spend money, the request moves up the ladder; the larger the sum, the higher the rung. One ME team successfully made the case for a new $1 million piece of equipment at the New Castle, Ind., plant.

Allegheny keeps its teams on a tight leash because such sums are at stake—and because it regards teams as a powerful business tool. "We want to use this system to meet business objectives," Hartford says, "as opposed to having it an employer-benevolence program. This is not an effort to make people feel good. The objective is to solve quality problems. I think it can be very patronizing to an employee to put them to work on a bogus assignment that has very little value to the company."

The benefits of this integration of people and machines can be seen in Allegheny's bottom line, where it has consistently shown an operating profit, even as other steel companies have faltered. Allegheny won't disclose its scrap rate for coils of stainless steel, but that rate has fallen by more than 50 percent over the last few years—and, Jack Shilling says, "we are extremely competitive, on a worldwide basis. I don't think there's anybody else who has a lower rate."

Although Allegheny was paying a lot of attention to quality before its president, Robert P. Bozzone, became CEO in 1989, he has added another dimension, through a greater emphasis on what he calls "customer sensitivity." In particular, he wants to cut the amount of time from when an order is received until it is shipped.

Through such cycle-time reduction, Allegheny is trying not just to free capital by reducing inventory—a traditional objective of such "just-in-time" programs—but also to respond more quickly and precisely to customer needs.

"In steel," Bozzone says, "you just kind of cranked it out, thousands of tons a day. Not any more. We're going to look more like people who are manufacturing products and changing them on the fly. Now every order is more customer-specific; you've got to be able to make rapid change."

This shift in the nature of the company will bring changes for hourly workers far more unsettling than those introduced through Manufacturing Excellence. "We've got to redesign the whole fabric of the hourly worker's activity," Bozzone says. "The fellow who used to work in a rolling mill five days a week is going to have to go over and work on another line three of those days, because there's only two days of work for him on his rolling mill."

Technology "is leading change," he says. "To tell people that they had to be more flexible, without being able to show them why, really wouldn't have caught their interest." Now that some hourly workers are starting to feel cycle time's impact—through shorter work weeks, in particular—"we're trying to indicate to them that to continue to get full work weeks, they're going to have to be more flexible," he continues. "What does management have to do? We've got to train them."

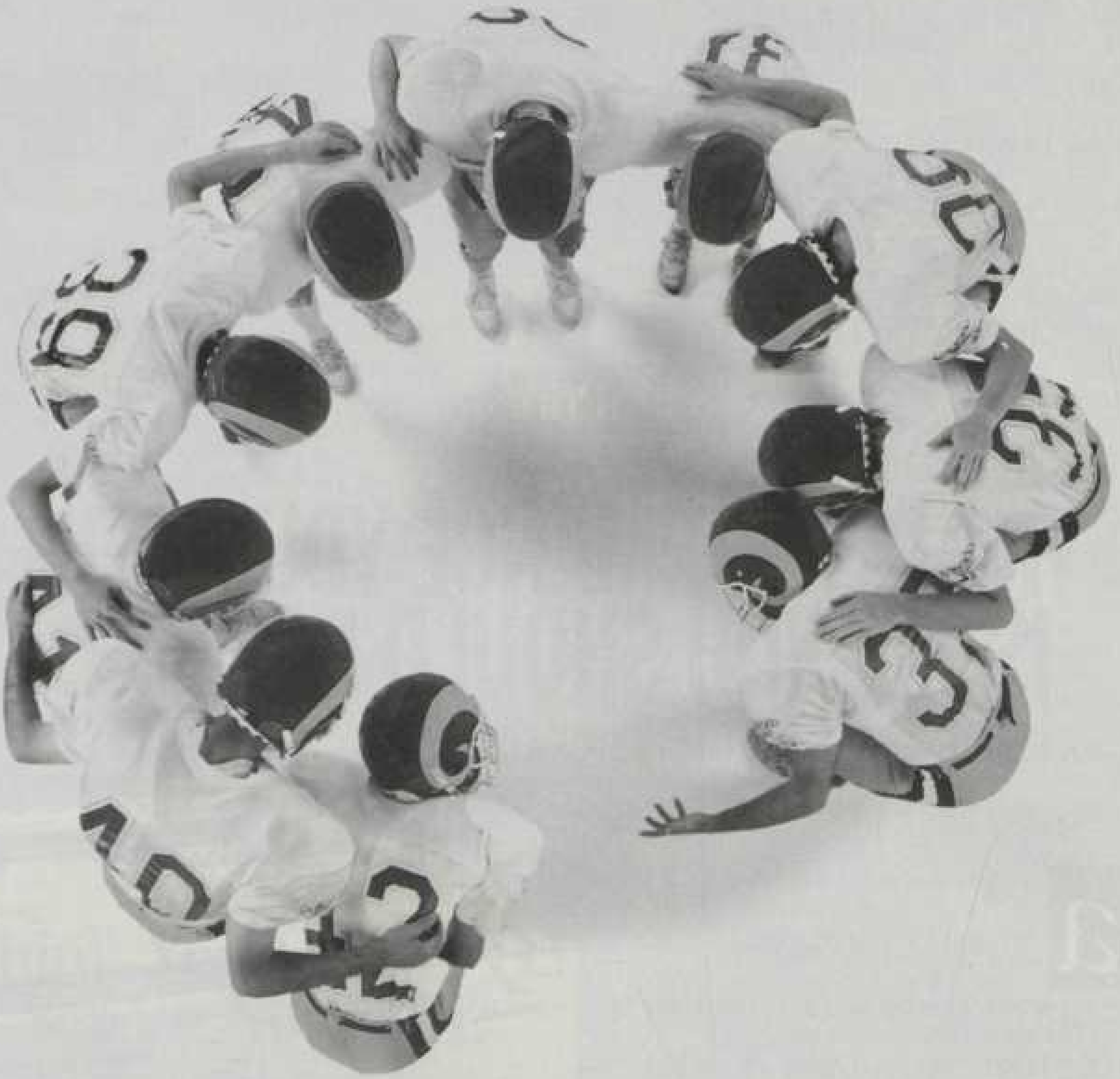
Cycle-time reduction has made more acute a need for training that technological advances had already created; monitoring machines requires more technical sophistication than operating them does. Soon, Bozzone says, work on a production line will require not just a high-school diploma but two additional years of technical education.

He suggests that as cycle-time reduction takes hold, overtime hours—rather than jobs—will shrink: "The drive we have is to be more flexible and serve the marketplace. It's not particularly toward a reduction in the work force."

The cycle-time program "has probably made a more fundamental change in the way we do business than anything in the last decade," Bozzone says. "And we're only beginning"—not all plants are yet involved.

Far more dramatic changes probably lie a few years down the road. In a joint venture with an Austrian company, Allegheny is developing a new steelmaking process that will let it eliminate many production steps and make coils of steel directly from molten metal; the company says it may be able to cut capital and operating costs by up to 75 percent.

By cultivating greater flexibility through its quality program now, Allegheny is not just improving its existing products and processes but also preparing for a future in which much greater flexibility will be possible—and, almost certainly, necessary. Bozzone relishes the change. "Metals people for years have really not been very customer-sensitive," he says. But now, "I even get the comment that 'you guys don't look like a metals company any more.' Frankly, I love that." NB



DEN/BE4

Family Business

Some thoughts for the Clintons; too much of a paternal feeling; an unhappy homecoming.

OBSERVATIONS

An Open Letter To Bill And Hillary

By Sharon Nelton

PHOTO: T. MICHAEL KEZA

Dear Bill and Hillary:

As the nation's "First Couple," you must know that you are a role model for this country's hundreds of thousands of entrepreneurial couples—that is, husbands and wives who start and run businesses together.

Like them, you are making history. And despite some of the criticism you have been receiving, you get reasonably good marks for your handling of this new kind of relationship so far.

I've been observing entrepreneurial couples for years. Even wrote a book about them once. Let me share with you four pieces of advice I've gleaned from some of the most successful couples, and you can see how you measure up:

1. Put marriage and children first. This is hard to do when you're trying to push an economic plan or decide what military bases to close, so I've been glad to see you getting out for a night on the town now and then. Nourishes the relationship, you know.

Remember not to discuss deficit reduction and all that stuff going on in Russia at the dinner table. Too much of that kind of talk can turn Chelsea off, and next thing you know, she won't want to inherit the White House.

Yours is a home-based business, so try not to let it interfere with Chelsea's life. She needs to feel that she is at home. Make time to give her your undivided attention; otherwise she might start to regard the presidency as an undesirable sibling. As for each other, well, most couples say it's best not to talk shop in bed.

2. Carve up the turf according to your talents. Bill, you've got economics, and Hillary's got health care. That's good. Keeps you out of each other's hair at work and helps colleagues and subordinates know which of you to approach on a given issue. Remember, though, you still have to present a united front—just as you do with Chelsea. Folks around you will demonstrate an uncanny knack for playing one of you against the other. "But Bill, Hillary told me . . ." "But Hillary, Bill said . . ." You get the drift.

3. Keep communicating. At a minimum, doing so will help you catch the guys who are trying to get what they want by dividing you. More important, business couples say, you have to keep the lines open about both business and personal issues. Because their schedules are so pressed, some couples actually set aside a time for a weekly meeting with each other—Friday lunch, say—and each brings an agenda for discussion. (Bet you've already thought of that, haven't you?)

4. Don't let personal issues spill over into the office or vice versa. No matter whose turn it was to clean Socks' litter box last night, the fact that it did not get done should not be brought up by either of you during a Cabinet meeting. (And fight fair. Don't say things like, "You *never* help Chelsea with her homework!" That's obviously an exaggeration.)

Well, that's about it for now. I can pass along other ideas from time to time, if you like. We never did get to the point about needing a sense of humor or how to handle it when your management styles drive each other crazy. So if I can be of further help, just let me know.

Sincerely,
Sharon

PLANNING

The High Cost Of Paternalism

By Craig E. Aronoff and John L. Ward

"As a family business, we want to encourage our people to be loyal to the company," chief executives often say. "We pride ourselves on being like a big family—treating all employees as if they are part of our extended family. We call ourselves a business family as well as a family business."

"Loyalty" and "family-like atmosphere" are very tricky words for a family-owned business. On one hand, they seem so positive, so warm, so appropriate, so valuable. On the other, there is a fine line between an effective management style and corporate paternalism. Often a paternalistic culture is developed for the wrong reasons—and at great corporate cost.

What is paternalism? How do you know if your organization is paternalistic? What are the real costs of a paternalistic culture?

Fundamentally, paternalism creates dependency. In often subtle ways, it saps employee initiative and creativity—and can even eat away at responsibility as organizational members learn that "The Boss" will take care of things.

The boss also pays a high price in loneliness, in isolation, and in the weight of responsibility he or she accepts for the general welfare of employees. Business health tends to decline as stagnation

PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

results from such paternalistic behavior.

Harry Levinson, a noted management authority and family-business psychologist, defines paternalism as "that kind of management that does for people what ideally they should do for themselves." He traces paternalism to ancient clans and kingdoms that needed to sustain their soldiers' loyalty. The approach spread to city-states and eventually to businesses.

Implicit in paternalism is the idea that "I'll take care of you and your family if you will obey me and respond to my wishes." Paternalistic companies place a premium on loyalty, not personal growth. They value compliance more than independence. Higher pay and more-generous benefits are examples of direct costs related to rewarding or even buying loyalty. Not all "family-like" firms are paternalistic. Many are, instead, genuinely committed to investing in their people. They see good people as the key to good business.

As a business owner, your goal for employees should be good performance and individual growth. One way to assess the culture of your business is to consider whether you reward longevity or performance. For example, do you give awards for tenure in the form of ceremonies, service pins, and seniority-based raises and promotions? Is recognition of loyal service more prominent than recognition of contributions to corporate success or quality-improvement milestones?

Another way to assess the degree of paternalism is to compare how much you invest in the employees' skills and education compared with your investment in their social welfare. Relative to other companies you know, do you spend more on training and development or on holidays and fringes?

There are many other subtle signs of a business's culture. Think about the following questions, and consider your practices and motivations:

■ Do you provide company loans to employees? Or do you let them make arrangements on their own?

■ Do you offer Christmas bonuses? Or are bonuses based instead on corporate profits and/or individual achievements?

■ Do you recognize people for developing their knowledge and skills, successfully taking on new responsibilities, and generating new customers? Or are you more likely to provide gifts for birthdays, anniversaries, and holidays?

■ Do your pay policies vary from employee to employee, or do you have a companywide standard?

■ Do you let people use company assets for personal use (such as trucks, computers, or the cafeteria)?

■ Do you pay a higher percentage of health-care costs than others in your area or industry? (We find that many family firms still have zero co-pay, for example.)

ILLUSTRATION: DAVID CHEN

■ Do you manage employee pension plans personally, or do you use a money manager? (We find many owners who want to do good for their people take the valuable time and personal risk of managing fiduciary funds themselves.)

■ Do you test employees' sensibilities and loyalties with emotional outbursts?

■ What do people call you at work: First name? Boss? Mr. or Ms.? The Chief? Companies in which chief executives are called by their first names are generally less paternalistic.

Thinking through some of these questions may help you reflect on how much the "family-like atmosphere" may blur with paternalism. Some business owners encourage paternalism out of their own needs, some out of genuine fondness for their people, and others out of habit from the example set by prior generations.

Many business owners we know struggle to define a corporate culture that is not only comfortable but also philosophically sound. One premise they consider is that the ultimate security they can offer their employees is the management competence needed to ensure the health of the business. One issue they consider is how much being generous to employees compromises the ability to offer them security and opportunity in the future.

We like this approach to loyalty and fairness.

We agree with a family-business CEO we know who wrote the following in the employee newsletter: "We prefer to think of a family business as one where all the members act like a family in two important respects. Members share a set of fundamental beliefs about the company. They also, like a family, say that 'my job' is not done until 'our job' is done. They go out of their way to help and support each other."

MARK YOUR CALENDAR

May 19, Jasper, Ind.

"Creating Your Future as a Family Business—The Ultimate Management Challenge" is the theme of a conference aimed at helping families prepare the next generation for business leadership. Call Joan Nordhoff at the Southern Hills Counseling Center at (812) 482-3020.

May 19, Greensboro, N.C.

"Perpetuating the Family Business—the Ultimate Management Challenge" is a daylong program featuring *Nation's Business* columnist John L. Ward. Call the North Carolina Family Business Forum at (919) 226-1380.

May 27, Smithfield, R.I.

The Rhode Island Family Business Conference features family-business consultant David Bork and Alan Hassenfeld, CEO of Hasbro, Inc. Contact Christine Smith, Institute for Family Enterprise, Bryant College; (401) 232-6477.

June 9-11, Cleveland

"Managing Succession Without Conflict" is a seminar on management transition conducted by family-business consultant Léon Danco. Contact the Center for Family Business at (216) 442-0800.

July 18-23, Skytop, Pa.

"A Retreat for Families in Business" combines family-business topics with a family holiday in the Pocono Mountains. Sponsored by the Delaware Valley Family Business Center and Goshen College. Call Henry Landes at 1-800-296-3832.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*


FIRST BUSINESS

CASE STUDY

A Son's Return Triggers Fears

When Jim Smith inherited all the stock in Smith Metals from his father years ago, it was a shock. He had been sure his brother, Mark, also would receive shares in the Kansas City manufacturing and metal-finishing shop—and so had Mark.

The father's action created friction between Jim and his brother that still exists today.

Now Jim is faced with the prospect of leaving a similarly painful legacy to his own children.

Jim, 60, and his second wife, Audrey, 58, own and operate the company jointly. They have two children—Shelly, 27, and Robert, 25. Jim has another son, Steve, 35, from his first marriage. Steve, married and a father, is vice president of the metal-finishing division.

ILLUSTRATION: DAVID CHEN

Shelly, a graphic designer, has no interest in the business. Robert, however, who has been living in Chicago, now wants to come back home and join the company. He is engaged to Jennifer, who is not liked by Jim or Audrey.

Jim feels Robert is lazy and is returning because he has trouble holding a job. But Audrey believes that Robert should be treated equally in both compensation and title with Steve, who has worked in the business since he was a teenager and who has long assumed he would someday own it.

They know they must also consider their vice president of manufacturing, Greg Wilson, 52, who has been a loyal employee for 30 years and instrumental in the company's success. Unfortunately, Steve does not get along with Greg.

Saddened by his relationship with his brother, Jim wants to avoid a situation that will set up conflict for his children. Where should he begin?

The Basics: Plan And Talk

The sudden, unplanned entry of Robert into the family business, especially as an equal to Steve, would be exceedingly disruptive. The family's first task is to address current issues with planning and communication. Jim could also confront unresolved issues with his brother, Mark, setting the stage for a healthier transfer of the business to the next generation.

A management committee made up of Jim, Audrey, Steve, and Greg can establish entry criteria for family members who wish to join the business. If Robert meets the criteria, the needs of the business can then be assessed to see if there is a proper fit.

PHOTO: [illegible]—BLACK STAR

Paul I. Karofsky, director of Northeastern University's Center for Family Business, in Boston.

If Robert does enter the business, effective planning then calls for team building and clear job descriptions for everyone. Performance criteria and measurable goals need to be developed, with results triggering financial rewards as well as titles.

Any temptation to have Greg mentor Robert should be resisted in order to lessen the risk of a triangle of conflict among Steve, Robert, and Greg and the worsening of the relationship between Steve and Greg.

Jim and Audrey also need to separate their dislike of Jennifer from their behavior toward Robert. If Robert ultimately gains equity in the business, a stockholders' agreement could prevent Jennifer from getting ownership.

Since Shelly has no interest in the business, other family assets or insurance can help achieve parity for her.

If the Smiths find they are unable to handle this process on their own, it warrants their considering bringing in a facilitator, such as a family-business specialist, to help them clarify issues and deal with conflicts. Either way, candid communication and effective planning best set the stage for conflict resolution, ownership transfer, and leadership succession.

Consider Four Key Issues

Jim and Audrey must first open up communication lines with their children and their key employee, Greg, about family and business relationships and goals. A consultant skilled in psychological counseling and organizational development can help improve the relationships of those involved—including Steve's relationship with Greg.

Jim and Audrey should also call a special meeting of the family members and Greg. In the meeting, which will be most effective if a third party is brought in as a facilitator, the family can begin to address the following four issues:

Gerald J. O'Bee, a family-business consultant with Connecticut Mutual Life Insurance Co. in Grand Rapids, Mich.

1. Any resentment Steve and Greg may have if Robert were hired at the same level and pay as Steve.
2. Plans for transfer of ownership and management of Smith Metals when Jim and Audrey are gone.
3. Greg's role in the business during and after the transition to the next generation.
4. If Steve inherits the business, how the parents' estate can be distributed so that the other children are treated fairly.

The next step will be to call on the assistance of other important advisers—such as the accountant, the attorney, and the insurance/investment consultant. As a team, they can help the Smiths develop and implement effective plans to address issues such as taxes, succession, and equalization of the children's inheritance.

For example, wills and trusts can be drawn up to direct distribution of the parents' estates and to avoid or minimize death taxes. Buy-sell agreements with adequate funding can cover contingencies and Jim's and Audrey's eventual retirement. Financial incentives can be devised to encourage Greg to stay on and work with Steve to continue profitability of the company. Life insurance can be used as the great equalizer to split the estates of Jim and Audrey among the other children.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgment Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Here are some recent "horror stories" direct from actual court cases:

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of $27,111.60. He narrowly escaped a penalty of $13,555.80.

B.W.C., Inc. was forced to pay $106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings...keeping minutes...taking votes...adopting resolutions...isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate recordkeeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay $100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important these forms are.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. Virtually all the forms you will ever need are already compiled in **The Complete Book of Corporate Forms** by Ted Nicholas. Nicholas also created the highly popular computer diskettes for **The Complete Book of Corporate Forms**. These diskettes can save you hours of valuable time—and can save you literally thousands of tax dollars each year.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help *after* they incorporated.

And so, he prepared **The Complete Book of Corporate Forms**. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping your corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

Here is just a sample of what you'll receive:

Minutes of Stockholders Meetings
Minutes of Directors Meetings
Minutes of Special Meetings
(Any of these can be used if you are the only stockholder and director.)
Amendments to Articles of Incorporation
Amendments to By-Laws

You will also receive all the stockholder and directors resolutions you will need including:

• Negotiations of contracts • Authorizing loans to corporation • Approval of corporate loans to you • Designation of purchasing agent *(some suppliers may want to know who is authorized to buy from them)* • Setting your salary • Directors fees • Authorizing your expense account • Mergers • Sale of corporate assets • Dissolution • Bankruptcy • Declaring dividends • Appointment of attorney or accountant

Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

• Pension or profit-sharing plans • Medical and dental reimbursement plans • Sick pay plans • Split dollar life insurance • Educational loan program • Scholarship aid program • Stock options • Group life insurance • Financial counseling plan • Group legal services • Christmas bonus, special bonuses

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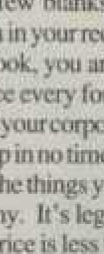

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REGULATION

Expanding The Wilderness

Businesses seek a more balanced approach to restricting public lands.

By David Warner

Douglas Crandall, general manager of Brand-S Lumber, can foresee the day when the Livingston, Mont., sawmill could be forced to close.

It's not that Montana is running out of timber, it's that preservationists want to put millions more acres of forested public land in the state off limits to a host of activities, including logging, to protect ecosystems by designating the lands as wilderness areas.

In Montana, 3.4 million of the state's 9.3 million acres of forested public land already are designated as wilderness. Nationwide, wilderness areas, which are authorized by Congress, account for more than 95 million acres of restricted-use public lands.

Preservationist groups such as the Wilderness Society and the Sierra Club want to set aside additional areas in other states, too. More than 100 million acres nationwide are currently being considered for wilderness designation, mostly by two branches of the U.S. Interior Department—the Bureau of Land Management and the Fish and Wildlife Service. (See the chart on Page 67.)

The Wilderness Act set up the National Wilderness Preservation System with an initial 9 million acres in 1964. Wilderness is defined by the act as a roadless area "where the earth and its community of life are untrammeled by man, where man himself is a visitor who does not remain." Logging, building of roads or structures, and using motorized vehicles are prohibited in such areas. And those restrictions effectively bar livestock grazing, mining, hunting, and developing for oil and gas, for example.

Nearly 270 million acres owned by the U.S. government are already off limits to most, if not all, economic activities through various restricted-use laws, such as those dealing with wilderness, wetlands, and wildlife refuges, according to the four federal agencies that oversee the government's land holdings. Those agencies are the Bureau of Land Management, the Fish and Wildlife Service, the Forest Service, and the National Park Service. The U.S. government owns 688 million acres, or more than one-third of the U.S. land mass.

Although most of the lands designated as wilderness through the early 1980s had been largely undeveloped and isolated areas, the more recent designations and lands now being recommended or studied for inclusion in the wilderness system include prime timber, livestock-grazing, mineral, energy-resource, and recreation areas.

So, why do more public lands need to be put off limits to such activities?

"The areas we're talking about are critical areas of land that either have spectacular scenic value or other values for recreation and tourism or [are] important wildlife habitat areas, which are needed in this country," says Michael Francis, director of national forest programs for the Wilderness Society, in Washington, D.C.

While even the advocates of multiple uses of public land agree that there are legitimate concerns about protecting ecosystems in many areas of the country, they disagree with preservationists about how much land should be set aside as untouchable.

Says Bruce Lippke, director of the University of Washington's Center for International Trade in Forest Products, in Seattle: "It's not clear that you couldn't

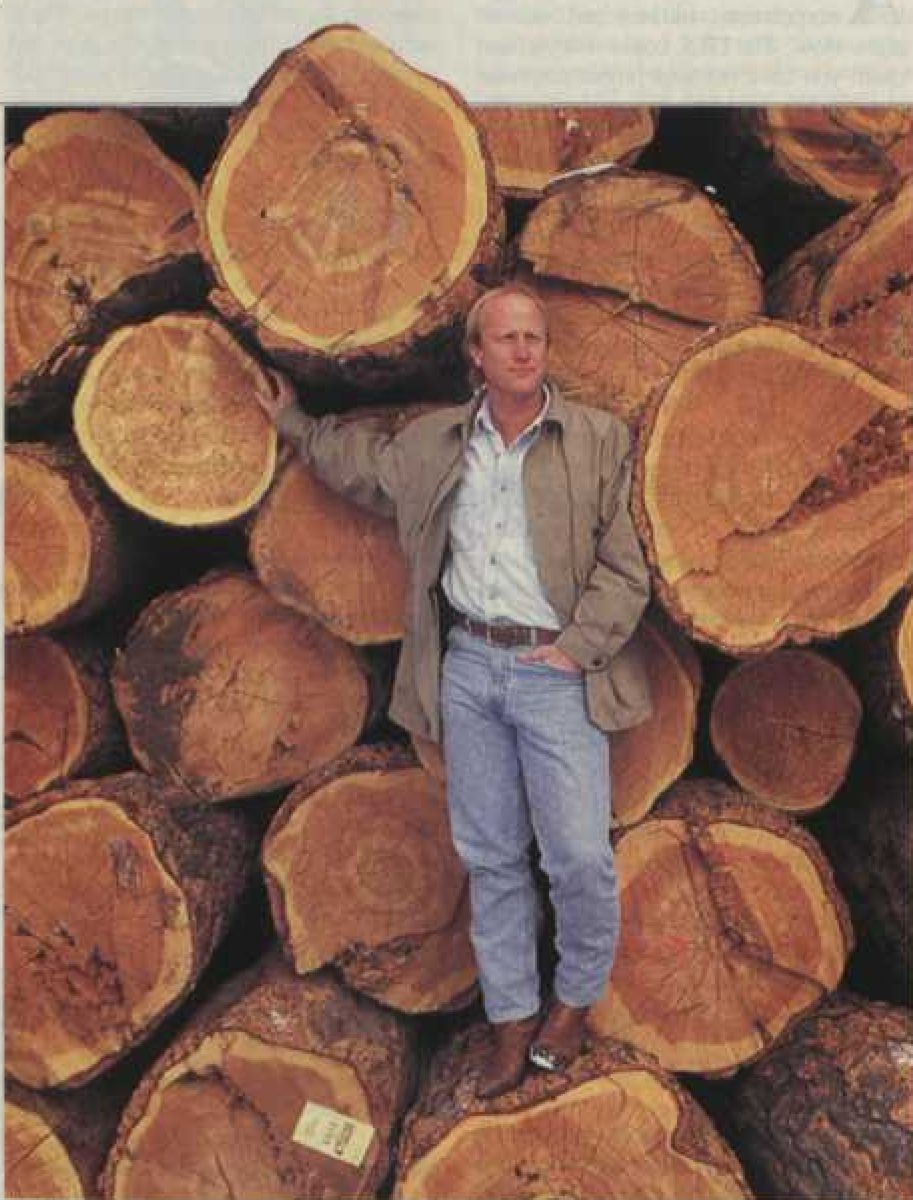


PHOTO: DOUG LONEMAN

Sawmill manager *Douglas Crandall of Livingston, Mont., says there are public misconceptions about the best way to manage land.*

have all those things [scenic beauty, wildlife habitat, and tourism] better and easier and cheaper through management, where you take some of the wood off for products."

Brand-S Lumber's Crandall, who also serves on Montana's Environmental Quality Council, agrees that there are areas throughout the country that should be set aside as wilderness. "But there's a great misconception with the public that the best way to manage land is through wilderness designation," he says.

Crandall points out that the No. 1 recreation spot in Montana is the Hyalite Drainage Area, in the Gallatin Forest, just south of Bozeman. For the past 45 years, the area has also been one of the most heavily logged. Now, part of the Gallatin Forest is being considered as a wilderness area, and timber harvesting there has ceased. A number of small mills in Montana have closed as a result, according to Crandall.

Indeed, there is evidence to suggest that putting lands off limits and not managing them can have adverse effects on wildlife and timber, not to mention local economies.

The battle over public lands, however, is not a fight solely between preservationists and the timber industry, as much of the public seems to think or is led to believe. The issue is far wider. "All of the economies of this state ... virtually everything that goes on in this state is tied to the use of [public] lands," says Mark Walsh, associate director of the Utah Association of Counties, in Salt Lake City. The federal government owns about 65 percent of Utah.

Walsh and the cattle and sheep ranchers, miners, and hunters are worried about legislation in Congress sponsored by Rep. Maurice Hinchey, D-N.Y., that seeks to add more than 5 million acres to Utah's 800,000 acres of wilderness.

Neighboring Nevada is worried about similar efforts to designate more public lands there. The federal government owns about 82 percent of the state, and 793,000 acres (about 1 percent of the state) are wilderness.

Businesses in the state already have felt the effects of wilderness on the economy. Richard Wright, owner of Wright Motor Co., in Elko, says his snowmobile sales have fallen over the past three years because of wilderness designations in the Ruby Mountains, a prime snowmobile area just west of town. "Our sales dropped off very badly because of this," says Wright, who counts on snowmobile sales for 10 percent of his business.

Studies by George F. Leaming, head of the Western Economic Analysis Center, in Marana, Ariz., and a former economics and business researcher at the University of Arizona, found that the economic losses to Nevada and Utah of designating 5 million acres in each state as wilderness would exceed $3.3 billion and $13.2 billion a year, respectively. Losses of jobs and potential jobs would total more than 34,000 in Nevada and 133,000 in Utah.

"If you went across the West and had votes in small towns that depend on public-land use," says Elko attorney Grant Gerber, "you would get 90 to 95 percent opposing any more wilderness." Gerber is chairman of the Wilderness Impact Research Foundation, a land-use group that is publicizing the effects of wilderness designations on various economic activities.

Perhaps the best-known area where wilderness is clashing with economics is the Arctic National Wildlife Refuge (ANWR), in northern Alaska. Preservationists want to designate 1.5 million acres of ANWR's coastal plain as wilderness, and developers want to use a small portion of it—around 13,000 acres—to search for oil. Of ANWR's 19 million acres, 9 million already are designated as wilderness. In developing part of ANWR, not only would vast amounts of oil and gas be produced, but more than 700,000 U.S. jobs would be created by the year 2005, according to a study by Wharton Econometrics Forecasting Associates, now the WEFA Group of Bala-Cynwyd, Pa.

Jobs vs. the environment also is a big issue in the Pacific Northwest, where preservationists have enlisted a new ally in their fight over public lands—the federal Endangered Species Act.

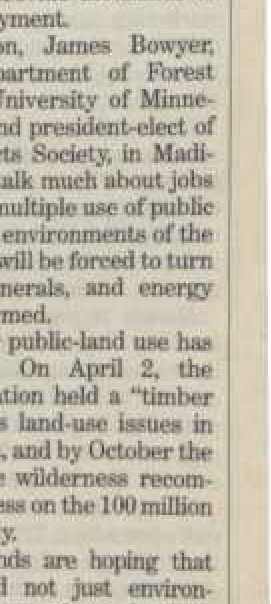
The act has the same effect as a wilderness designation, restricting land use to protect plants and animals on the government's list of protected species. Under the guise of protecting the endangered northern spotted owl, preservationists have successfully locked up millions of acres of prime timber land in Washington, Oregon, and Northern California. Since 1990, when the owl was listed, more than 125 lumber companies and nearly 13,000 jobs in those states have been lost, mainly because the listing crimped the availability of timber, according to industry sources.

But preservationists seem to dismiss job losses as a small price to pay for environmental protection, and lately they have stepped up their efforts to set aside public lands in areas that not only have the potential for job creation but that already provide thousands of people with employment.

For that reason, James Bowyer, head of the Department of Forest Products at the University of Minnesota, in St. Paul, and president-elect of the Forest Products Society, in Madison, Wis., doesn't talk much about jobs when arguing for multiple use of public lands. He says the environments of the countries the U.S. will be forced to turn to for timber, minerals, and energy sources will be harmed.

The debate over public-land use has been heating up. On April 2, the Clinton administration held a "timber summit" to discuss land-use issues in the Pacific Northwest, and by October the president must make wilderness recommendations to Congress on the 100 million acres now under study.

Users of public lands are hoping that economic factors and not just environmental ones will be part of any decision-making process concerning public lands. Says Brand-S Lumber's Crandall: "I really believe that in order to have a healthy environment, you have to have a healthy economy, and vice versa. They go hand-in-hand." NB



State Wilderness Areas

The following states have more than 750,000 acres in the National Wilderness Preservation System:

STATE	IN SYSTEM	RECOMMENDED OR UNDER STUDY
	(ACRES IN MILLIONS)	
Alaska	57.465	71.900
Arizona	4.538	1.700
California	6.305	5.362
Colorado	2.645	1.200
Florida	1.422	0.849
Idaho	4.006	3.300
Minnesota	0.808	0.219
Montana	3.442	2.180
Nevada	0.793	5.500
New Mexico	1.613	0.720
Oregon	2.096	1.538
Utah	0.801	3.800
Washington	4.257	0.007
Wyoming	3.080	2.620

Connecticut, Iowa, Kansas, and Rhode Island are the only states without federal wilderness areas, or areas recommended or under study for inclusion in the wilderness system.

SOURCE: CONGRESSIONAL RESEARCH SERVICE

PHOTO: TOM & PAT LEESON

Improving English Skills

These workplace language programs are tailored to meet the needs of an increasingly diverse work force.

By Roberta Maynard

As workplace diversity increases, so does the need to improve the ability of workers to communicate in English. And many small firms that have not previously considered English skills as part of their training programs are seeking ways to provide such help to employees. Those businesses are drawing on private companies and public agencies for help in promoting English as a second language (ESL) on the job.

In 1990, the three largest minority groups in the work force were blacks, Hispanics, and a category that the U.S. Bureau of Labor Statistics calls Asians and Others. By 2005, the sharpest rise—to 11.1 percent from 7.7 percent—will be among Hispanics. Asians and Others are expected to grow from 3.1 percent in 1990 to 4.3 percent.

The growth in ESL is also evident in publishing. Ten years ago, about 50 ESL textbooks were available from the major U.S. educational publishers combined, according to Andreas Martin, executive marketing manager for Prentice Hall, a publishing company in Englewood Cliffs, N.J. Today, there are between 300 and 400 separate ESL titles.

Meanwhile, a growing number of sources are providing work-site English training. These sources include adult-education programs, public schools, community colleges, independent instructors, and private companies such as Tru Lingua, Inc., in Santa Ana, Calif.

Nearly 10 years ago, at its Santa Ana location, Tru Lingua began providing Spanish-language instruction to managers of a fireplace-manufacturing company. The goal was to improve communication between English-speaking managers and Spanish-speaking workers.

Within three months, says Tru Lingua's president, Tru Miller, it was obvious that managers had so many other job priorities, such as travel and meetings, it was difficult to get them to class.

But Miller also discovered that the company's Hispanic plant workers were interested in taking English classes. So she began an on-site pilot class of 15 students. By 1990, vocational ESL (VESL) had become the primary focus of her company's operation.

One of the most appealing aspects of VESL programs is that they are tailored to each workplace. As a result, the training is much more likely than general English instruction to result in higher worker productivity, experts say. Employers get more for their investment dollar if workers are learning vocabulary and information specifically related to the work they do.

In a conventional class, for example, students learn how to phrase such sentences as: "The book is on the table." In a work-site class, that might be replaced by: "The forklift is in the plant."

A teacher in a general English class would use standard exercises for a grammar lesson on the past tense, whereas a VESL instructor might use a history of the company written in the past tense.

The type of material taught and the workers selected for the courses depend on the company's objectives. To determine those objectives, VESL instructors meet with company managers, tour the facilities, and may even spend time observing workers, studying their jobs.

> **"We have workers who came here after working in the fields who are now sitting at computers."**
> — Patricia Tappan-Coppel, Case Swayne Co.

Workplace instruction may be long-term or short-term, depending on the company's goal. One firm arranged for a five-day project to teach employees with limited English skills about a new workplace law. Another short-term class taught workers how to read labels on mixing materials to avoid errors.

But a more common goal of employers is the general upgrading of language skills for a number of ethnically diverse employees, which is a much more long-term proposition. This can be an eye-opener for businesses new to ESL. "Employers don't understand how long language instruction takes," says Robin Schrage, coordinator of the English in the Workplace program run by the public school system in Fairfax County, Va. The program contracts to do on-site training for clients, which include hospitals, banks, landscaping firms, manufacturing companies, and nursing homes.

Fairfax's minimum arrangement is for 60 hours of instruction with 10 to 15 people in a group, meeting for at least three hours weekly. But students may need much more instruction, depending on their initial skill levels. Schrage says that "it may take 120 to 180 hours of instruction" to improve the English skill level of a group significantly.

That is not to say that employers shouldn't see some results early, such as workers' improved communication, their general comfort level with English, and their willingness to interact with others.

An example of how ESL training can meet a company's needs is SICPA, a 100-employee ink-manufacturing company in Springfield, Va. SICPA wanted to prepare production workers for changes brought about by new manufacturing technologies and by a move to Total Quality Management, which required employees to track and write down more information. SICPA hired a firm to teach a class of 13 that included Hispanic, Cambodian, and African workers. SICPA paid for materials and instruction; half of the instruction was on company time.

"The employees are better workers as a result" of the course, says Katherine Hartman, SICPA's human-resources manager. "I was concerned about attendance, but we didn't have a problem. They really enjoyed it, and everyone in the class improved. Some have gone on to a local community college to take English on their own."

Another business that has benefited from ESL is Case Swayne Co., a food-processing firm in Santa Ana that packages taco sauce and dry seasonings. Case Swayne began teaching English to its Spanish-speaking employees as the company prepared to increase its computer use and statistical-assessment strategies. Managers believed that workers' basic competency in English was fundamental to the company's growth plan.

Fifty of the company's 250 employees participated in the three-month program. They met after work and were paid at

Tru Lingua instructor *Linda Lazier teaches English to employees of FMI, Inc., a fireplace manufacturer in Santa Ana, Calif.*

time-and-a-half rates for their hours in class. "Students developed enormously," says Patricia Tappan-Coppel, the company's coordinator of training and development. "Together with ESL and math, it was like magic. We have workers who came here after working in the fields who are now sitting at computers. People grew and developed, which is part of the mission of our company. This was an investment, and we can see the results."

Workers at Case Swayne can now answer questions from customers who visit the plant, she says. Before, all communication with suppliers went through the managers.

Both Case Swayne and SICPA say one of the major benefits of the English instruction was that their workers developed confidence, which has had a positive effect on their jobs. They began to participate and show more initiative; when they didn't understand a job function, they asked. "They start to see their own potential," says Tappan-Coppel, "and their own contribution to the company."

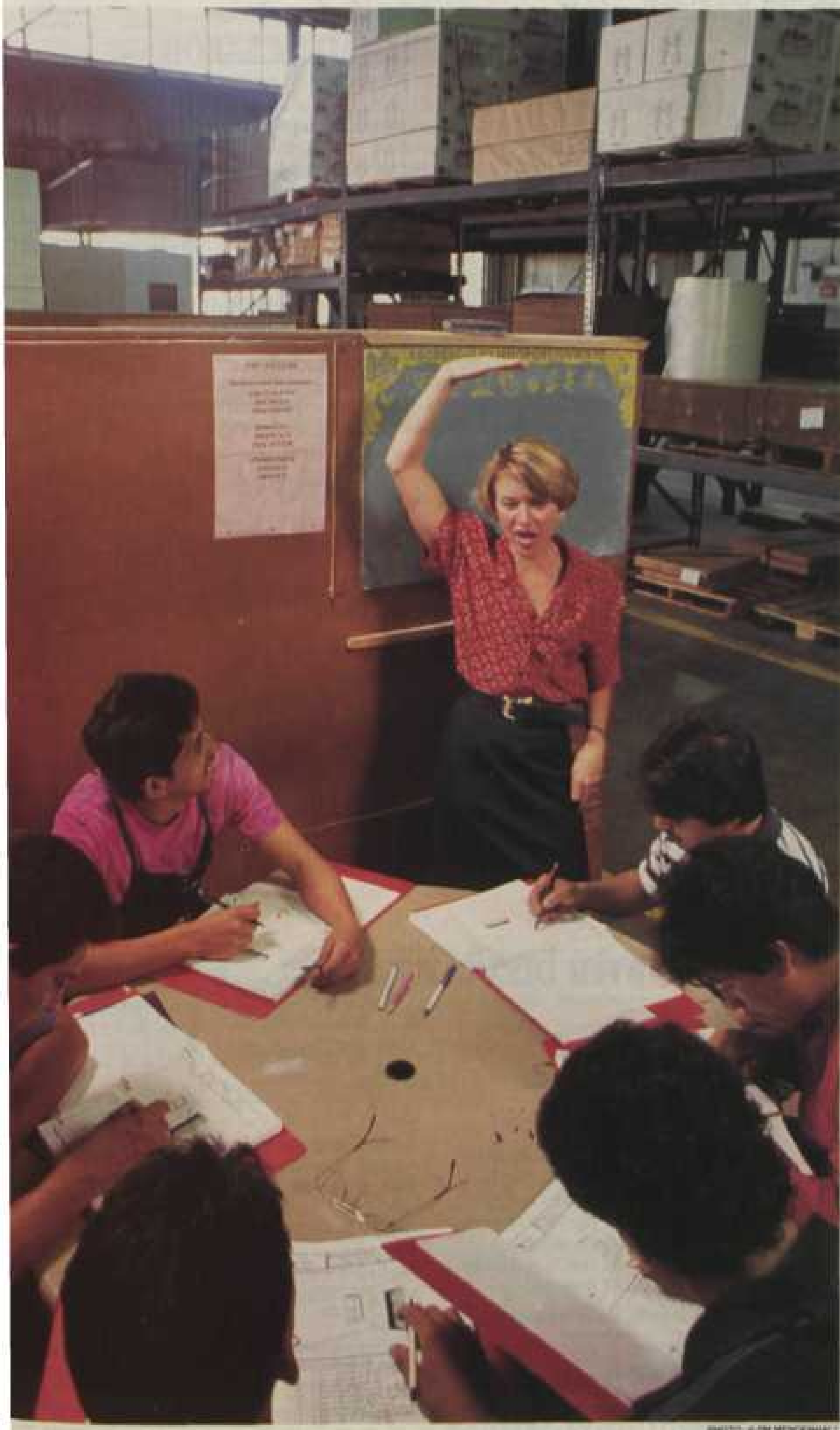


PHOTO: KIM MENDENHALL

To encourage employee participation in the training, experts recommend holding part of the instruction on company time. Some employers, though, have found that it's important for employees to have a stake in the process, too—in time or cost.

Bill Harris, president of FMI, Inc., Tru Lingua's first VESL client, has his workers, collectively, pay 20 percent of the $30-per-hour instruction cost. Each worker has $1.50 per week deducted from each paycheck. An alternative is to have workers pay the cost and then reimburse them when the training is completed.

VESL training costs vary with the number of employees, the materials used, the length of instruction time, and students' proficiency. Fairfax County charges $5,000 for a minimum 60 hours of instruction per group of workers.

But for companies with only a few workers in need of training or for firms that must keep costs down, there are alternatives, says Sheila Acevedo, ESL manager of adult vocational and community education programs for the school board in Palm Beach County, Fla. Companies can subsidize part or all of the cost of general adult-education English classes. Or they can get similar firms to form a cost-sharing type of cooperative. She cites three Florida hotels that are sending their housekeepers to a combined class.

Tru Lingua, itself a small business with eight full-time employees, has begun working with its five competitors in Orange County, Calif., to develop affordable programs specifically for small businesses by sharing instructors and students.

"We are trying to group together students from different companies," says Tru Miller. "The costs will be on a per-student basis, and we will try hard to keep them down." Miller says the group intends to promote its services through local chambers of commerce.

On the national level, Congress has gotten into the act. A bill introduced in the House by Rep. Bill Emerson, R-Mo., would give businesses a tax credit for half the money they spend on English language training for employees. Should the bill become law, business interest in ESL could become even greater.

For information on VESL companies or instructors in your area, check the telephone book under "Languages," or contact Teachers of English to Speakers of Other Languages (TESOL), a professional organization of 23,000 ESL educators and administrators, in Alexandria, Va., at (703) 836-0774. NB

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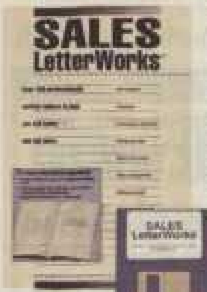

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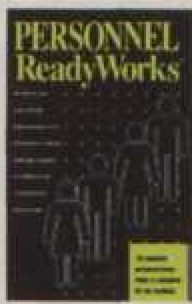

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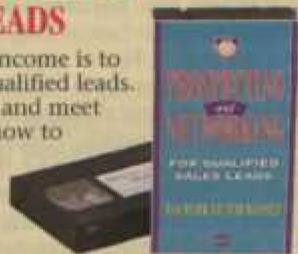

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REGULATION

An Unexpected Phone Bill

A federal rule says all your phones must be able to be used by persons with hearing aids.

By David Warner

By May 1, all telephones in workplaces with 20 or more employees must be hearing-aid compatible, according to a little-publicized regulation adopted in June 1992 by the Federal Communications Commission (FCC). Each violation is punishable by a fine of up to $10,000 a day to a maximum of $75,000.

By May 1, 1994, the FCC rule will apply to phones in all workplaces. The measure covers private and public entities, including hospitals, churches, and universities.

The rule is the result of an interpretation of legislation passed by Congress in 1988; the measure required that telephones manufactured in or imported into the United States after Aug. 16, 1989, had to be hearing-aid compatible.

The 1988 law, the Hearing Aid Compatibility Act, also reiterated a 1982 Telecommunications for the Disabled Act requirement that all "essential" telephones be hearing-aid compatible. Essential phones were defined as coin-operated, those provided for "emergency use," and others "frequently needed for use" by people with hearing aids.

Neither law required retrofitting of telephones. In fact, Congress rejected retrofitting. A House report accompanying the 1982 law says: "An employee with impaired hearing should have access to at least one compatible telephone." And a Senate report with the 1988 statute states: "Retrofitting telephones currently in use to make them [hearing-aid compatible] or requiring refurbished telephones to be compatible appears to be too costly at this time."

But the FCC ignored Congress's intent. The commission issued its rule because, it reasoned, a hearing-impaired person could be any place in an emergency, and therefore all telephones are "essential," says Robert Kimball, an attorney with the commission's Common Carrier Bureau, in Washington, D.C.

"I don't know what the FCC was thinking," says Jonathan Mook, a labor and employment attorney with Ogletree, Deakins, Nash, Smoak & Stewart, a law firm in Washington. "I didn't think it could be clearer as to what Congress intended, which was no retrofitting." Mook's firm represents several businesses that have expressed concern about the FCC rule.

Only in the past few months have businesses, mostly large companies, become aware of the telephone regulation, according to several attorneys who spoke with *Nation's Business*.

Letters from telephone vendors offering to replace phones that are not hearing-aid compatible with phones that are—for a price—alerted many companies to the issue.

"A very small number of employers are familiar with the subject at all," says Peter Susser, an attorney with Keller & Heckman, in Washington.

Business phones *must be usable by persons who wear hearing aids, the Federal Communications Commission has ruled.*

To get the word out to telephone users, the FCC's Kimball says, the commission relied on organizations that monitor FCC actions and on groups that responded during the comment period on the proposed rule. He also points out that publishing the rule in the June 18, 1992, *Federal Register* technically constituted legal notice. Says Ogletree's Mook: "This is sort of the stealth regulation. You don't realize it's there until it hits you."

And the rule could hit businesses in a big way. The cost of converting a phone so it can be used by a person with a hearing aid may be only a few dollars for some old phones, but it will be much higher for most phones that lack such capability. Most such phones will have to be replaced or will have to be equipped with new handsets, according to several telephone-system companies contacted by *Nation's Business*.

The only way to tell if a phone is hearing-aid compatible is to check with its manufacturer. Retrofitting a phone to make it hearing-aid compatible (HAC) costs about $40. For example, ROLM, a telephone company in Santa Clara, Calif., says its HAC handsets are priced at $35 each, or $16 apiece for 10 or more. AT&T sells HAC phones priced from $35.99 to $64.99, and the company's HAC handset systems are $49.99.

Requests to waive the FCC regulation for employers have been made by several groups, including the U.S. Chamber of Commerce and the Equal Employment Advisory Council, a coalition of 270 major U.S. companies concerned about employment discrimination.

The groups maintain in their comments to the FCC that the HAC rule is in conflict with the Americans with Disabilities Act, which requires an employer to make "reasonable accommodations" on an as-needed basis for a particular individual with a disability.

"This [rule] seems to go so far beyond what the [Americans with Disabilities Act] requires," says Ann Reesman. She is an attorney with the Washington, D.C., law firm of McGuiness & Williams, and she represents the Equal Employment Advisory Council. "It seems to be a bit much."

Nonetheless, the commission has no plans to delay or waive the rule, according to Kimball.

Businesses seeking more information may want to call the FCC at (202) 634-7150. NB

Women In Business

The quest for capital—to help firms owned by women and minorities, and to spur a company's growth.

By Sharon Nelton

FINANCE

On The Horizon: More Investment In Women

Women entrepreneurs are at last beginning to catch the attention—if not quite yet the money—of the private investment community.

Three experienced investment managers—Michael Y. Granger, Joyce M. Overly, and Xcylur R. Stoakley—have staked their reputations on the notion that providing expansion financing to women-owned and minority-owned businesses represents investment opportunities. They are principals in Ark Capital Management Co., a Chicago investment management company they formed in 1991. It has created the Ark Capital Fund, with the aim of raising $300 million—from such sources as institutional investors, public and private pension funds, endowments, and insurance companies—for investment in businesses owned by women and minorities. They expect to close their first fund-raising deal this spring.

PHOTO: [illegible]

Expanding the growth *of women-owned companies is one of the goals of Ark Capital Management's Xcylur R. Stoakley, Michael Y. Granger, and Joyce M. Overly.*

Granger says Ark research shows that women-owned businesses have been growing at a faster rate than U.S. businesses overall and that they form a significant part of the "cadre of small to medium-sized businesses that are creating most of the jobs in the U.S. economy." Yet there isn't much capital in this market or much knowledge about it, he says.

Ark will not invest directly but will work through as many as 15 independent "investment partnerships" around the country that will make the investment decisions. Ark is looking for partnerships "where women and minorities play significant roles as general partners and people making the investment decisions," says Stoakley. Such partnerships, the trio believes, will be more willing to work with women and minority entrepreneurs.

Investing in women-owned firms was an idea whose time had not yet come in 1989 when Jennifer Wilson, a former corporate investment manager, launched Sky Venture Capital Fund in Des Moines, Iowa. Her goal was to raise $20 million for investment in enterprises owned by women. However, Wilson had to close the endeavor after 18 months.

The attitude she encountered was that "women don't deserve access to big money," she said recently at a meeting on access to capital, co-sponsored by the National Women's Business Council in Washington, D.C. But women still call the Sky number hoping to get funds, says Wilson, who now lives in Seattle.

Susan Davis, head of Capital Missions Co., in St. Charles, Ill., is taking a somewhat different approach to raising capital for women-owned businesses. Her company is forming a national financing network to connect women-owned firms with sources of equity capital. The network will not be in operation until fall.

"It's going to take at least three to five years, maybe even up to a decade, for traditional banking or financial environments to recognize women entrepreneurs as a real investment opportunity," says Ark's Joyce Overly. Meanwhile, she and her partners believe they have caught the beginning of the wave, where the best opportunities are.

For More Information

Ark Capital Management Co. recently issued a report on investment opportunities in women-owned and minority-owned firms. It is called *Minority- and Women-Owned Businesses: Growing Forces in the U.S. Economy.*

For a copy, contact Ark at 29 N. Wacker Drive, Suite 795, Chicago, Ill. 60606; (312) 541-0330.

New Center Offers Educational Programs

"Camp Entrepreneur," a program for teenage girls that runs from June 13 to 18, is one of a number of educational opportunities offered by the National Education Center for Women in Business, which opens in May at Seton Hill College, in Greensburg, Pa.

The new center will receive $1 million each year for five years from the U.S. Department of Commerce for research and education. Director of the center is Cynthia Iannarelli, an entrepreneur with a doctorate in business from the University of Pittsburgh.

Other activities scheduled by the education center include a meeting for disabled women who aspire to business ownership; programs on developing businesses in engineering, health care, and the sciences; and sessions on marketing and international trade.

Contact the National Education Center for Women in Business at Seton Hill College, Seton Hill Drive, Greensburg, Pa. 15601-1599; (412) 830-4625. ■

EXPANSION

A New Complaint From Women

Perhaps it's a sign of progress. Ten years ago, women complained about their inability to get money to start businesses. Today, more and more, they say they can't get capital to fuel the growth of their enterprises.

It took Beverly Zeiss very little money seven years ago to start Critical Care Associates, Inc. CCA, in Montclair, N.J., provides temporary critical-care nurses to hospitals. Almost at once, the company took off, quickly hitting $1 million in annual sales. But when Zeiss went to her local bank for expansion financing, she was turned down despite a longtime relationship with the bank and a good credit record.

"They wouldn't touch us because we weren't in business for three years," says Zeiss. In addition, hers was a service business, so it lacked the kinds of assets that make banks more receptive to loan applications.

Zeiss' business is capital-intensive—temporary nurses are paid each day they work, but CCA in turn must wait anywhere from a month to a year to be repaid by its hospital clients. Zeiss and her husband, John, then a Schering-Plough Corp. engineer but now CCA's vice president, took out a $100,000 home-equity loan. Family and friends lent them a total of $87,000. John tapped his profit-sharing plan for $30,000.

However, CCA still needed money, and Zeiss turned to credit cards. Using 19 of them, she borrowed altogether $92,000.

Unlike Zeiss, Cindy Hays and Jonna Lynne Cullen of JL Gourmand, an Alexandria, Va., company that makes Pesto

PHOTO: SALAN DOROW

Unable *to get a loan, Beverly Zeiss borrowed $92,000 on 19 credit cards.*

Plus sauces, were able to get money from the bank: a $95,000 line of credit in 1990. That was even before the company was incorporated and before Hays and Cullen worked in it full time. But as savings-and-loans began to fold and bankers and bank regulators grew more anxious, the bank canceled JL Gourmand's credit line in 1991 and asked for repayment of the $93,000 the women had drawn on it.

Despite having such customers as the Kroger and Safeway supermarket chains as well as restaurants and caterers, Hays and Cullen have not been able to get a loan since. Six banks have told them they have too little collateral.

They have managed to raise $278,000 in a private offering, and they are looking for still more financing from other private sources.

The orders keep coming in, and that's exciting, says Hays, the company's president. "But it's terrible to answer the phone and know that it might be somebody that you owe money to. You desperately want to pay it, but you've got to pay the guy who's producing the thing so you can sell." JL Gourmand has yet to turn a profit.

So far, Beverly Zeiss' story has a happier ending. She was finally able to get a $250,000 credit line from the bank that originally refused her credit, and CCA grew to $6.7 million in annual revenues by 1990. Revenues are down to just under $5 million annually now, partly because the bank refused to expand the credit line to $400,000, causing the Zeisses to restrict the company's growth.

"If you don't go with a natural growth spurt, it's really hard to get that spurt back again," says Zeiss. She adds that she thinks banks are passing up some good opportunities. It would benefit banks, she says, to deal with some businesses earlier. ■

CAPITAL

Getting Money: Five Tips

Getting money to start or expand a business calls for stamina and strategic thinking. Here are tips from investors and successful entrepreneurs:

1. Expand your network. While it's all right to network with people who give you moral support, you also have to find ways to get to know members of the venture-capital and banking communities, advises Xcylur R. Stoakley, a principal of Ark Capital Management, in Chicago. "You can't rely on the sole support of those people who wish you well but can't write a check."

2. Persevere. As a woman, you will encounter greater difficulties or barriers because of cultural and social attitudes that still exist in the market, says Stoakley. He urges you not to get discouraged or fall back on easy excuses such as "the playing field isn't level." Find a way to work through the barriers. "Stay in the market," adds Ark's Joyce M. Overly. "Don't give up."

3. Keep to the point. When you're trying to get money for a business, says Overly, you have to sell the business as an investment. Don't take the attitude that you should be able to get money on the basis of being a woman or because "you owe me," she cautions. Or, as one business woman puts it, "One doesn't get loans because they are anything other than profitable."

4. Do your homework. You have to have more than a fantastic idea; you have to have a business plan, says G.G. Fernandez, chief executive officer of Ferco Tech, an aircraft engine parts manufacturer in Franklin, Ohio. People often ask him to invest in their business ideas, and when they do, he says such things as: "Show me how much money you need and how you are going to pay me for it. Tell me your marketing plan. Who are you going to sell to? Do you have any research going into this? Who is your competition?" Often the aspiring entrepreneurs don't come back. "They don't know how to do [a business plan] or they don't want to do it," he says. (A *Nation's Business* article, "How To Write A Business Plan," can be purchased from our Reprint Manager. Specify #8933. See Page 80 for an order blank.)

5. Try more than one lender or investor. Beverly Zeiss, founder of Critical Care Associates, Inc., in Montclair, N.J., admits that she went to only one bank. She was not only turned down by the bank but she also let it convince her that she didn't have a chance anywhere else. Other entrepreneurs have found, however, that a turndown by one bank doesn't mean a turndown by all. NB

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

TRANSPORTATION

A Hire Calling

I need information on how to start a taxicab service.
B.C., Olympia, Wash.
(Similar question from M.T., Beaver Meadows, Pa.)

There are about 175,000 taxicabs in the country, and most of them are owned and operated by family firms or other independent businesses, according to Alfred LaGasse, executive vice president of the International Taxicab and Livery Association.

"Our industry follows the economy, which means it shrinks quickly and rebounds quickly, depending on what is happening in the economy," LaGasse says. The taxi business, like most others, he adds, has felt the effects of the recent recession.

In addition, the taxi business is feeling increased competition from public transit systems, social-service agencies with vehicles, hotel shuttle services, and rental-car services.

Taxicab business owners and drivers are licensed at the municipal and county levels. Check with your local government for information on permits and other requirements.

Basically, there are two kinds of permits—to operate a taxicab business and to drive a taxi.

To operate a business, you will need a business license; its requirements vary among cities and towns, says LaGasse, "but the bigger the city, the more involved the requirements."

To drive a taxi, you will need a taxi driver permit, which generally requires a driver exam and a test of your knowledge of street locations.

ILLUSTRATIONS BY MARTHA VAUGHAN

If you have additional questions, LaGasse invites you to call or write to the membership services director at the International Taxicab and Livery Association, 3849 Farragut Ave., Kensington, Md. 20895; (301) 946-5701.

TRAVEL

The Road Less Costly

My business employs under 20 people whose work involves a great deal of travel and entertaining. Any advice on how to reduce our costs without sacrificing the needed travel?
R.S., Chicago

With President Clinton having proposed that the business deduction for business meals and entertainment be reduced to 50 percent from the current 80 percent, it's becoming more important than ever to keep travel and entertainment expenses in line.

"Travel and entertainment expenses are typically a company's third-largest controllable operating expense after salaries and data processing," says James A. Firestone, executive vice president of American Express Corporate Card Division, and he offers suggestions for reining in such costs.

Create and enforce a written travel policy, Firestone says. Be sure to define spending limits, reservation procedures, payment methods, the rules for cash advances and expense reporting, and the methods of reimbursement. The policy—which should be distributed to all employees—should include the names of airlines, car-rental companies, and hotel chains that your employees are permitted to use. Travelers should be required to obtain the lowest available airfares, adhere to limits on the size of cars they can rent, and stay at moderately priced hotels.

Reduce your company's cash advances by limiting the amount of cash an employee may request per day, and insist on prompt settlement.

Take advantage of the services of a good travel agency, says Firestone. "Travel agencies can negotiate with vendors for better rates, analyze your company's travel patterns, and suggest special discount programs."

Other suggestions include adopting a corporate credit-card program, selecting a bank with the lowest interest rates, tightening your receipt requirements, and streamlining expense reporting.

ENTERPRISE

For Women And Minorities

Where can I get business start-up information useful to women and minorities?
D.R., Arlington, Va.

Women who are looking for information on starting a business should check with the National Association of Women Business Owners, 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465. The association offers a wide selection of materials—some of them free—on starting and operating a business.

The National Association for Female Executives also offers programs and materials for would-be entrepreneurs. Write or call the organization at 127 W. 24th St., 4th Floor, New York, N. Y. 10011; (212) 645-0770.

The U.S. Small Business Administration (SBA) sponsors regional seminars and conferences for women only. Check with your local SBA office's representative for women's business ownership.

Minorities can obtain information on starting a business from the Minority Business Development Agency of the U.S. Department of Commerce. The agency's seminars and workshops on business start-up are offered throughout the country. Check the federal government listings of your local telephone book for the location of the Minority Business Development Agency office nearest you.

AQUACULTURE

A Helix-Raising Idea

I need information on Helix garden snails, also known as escargot. I want to raise them for sale to restaurants.
L.R.D., Carlyle, Ill.

The Aquaculture Information Center's free publication *Raising Snails* covers procedures for starting a snail-raising business. Quantities are limited. To obtain a copy, send a stamped, self-addressed envelope to the National Agriculture Library, Reference Branch, Room 111, 10301 Baltimore Blvd., Beltsville, Md. 20705.

MARKETING

Operators Standing By

I am interested in getting into the (900) audio text business.
J.K., Houston

Your long-distance provider can give you information on 900 services, including start-up strategies, marketing ideas, line charges, and the kind of electronic equipment you'll need.

The phone numbers for the major providers are AT&T at 1-800-243-0900; U.S. Sprint at 1-800-735-5900; and MCI at (703) 506-6550.

RETAILING

Nuts And Bolts

I need information on steps that would be involved in starting a neighborhood hardware store.
J.P., Fresno, Calif.

The independent retail hardware store is "a very vibrant part of the industry," says Steve Johnson, director of retail services for the National Retail Hardware Association. There are 22,400 retail hardware stores nationally, according to the association, and they rang up $16.5 billion in sales last year.

The association offers a free *New Store Owner Kit*, which contains background information on the industry, resource guides, and a publications list. A free copy of the association's monthly magazine, *Do-It-Yourself Retailing*, is available upon request. The November 1992 issue contains information on sales trends through 1996.

Two manuals from the association may also be helpful: *Successful Store Operations* and *Managing Personnel in the 1990s*. Each is priced at $59 plus shipping.

For more information on the topic or the publications, Johnson invites you to write or call the Member Services Department at the National Retail Hardware Association, 5822 West 74th St., Indianapolis, Ind. 46278; (317) 290-0338.

For information on trade shows and educational seminars on the wholesale-hardware industry, contact the National Wholesale Hardware Association, 401 N. Michigan Ave., Chicago, Ill. 60611-4267; (312) 644-6610.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102.

Writers will be identified only by initials and city. Questions may be edited for space.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

INVESTING

Riding With The Bulls, The Bears—And The "Spiders"

Want to play the market but don't know which stocks to bet on? You can put your money on SPIDERS and get 500 major companies all at once for massive, across-the-board diversification.

So what are SPIDERS? They're Standard & Poor's Depository Receipts, securities that track all 500 stocks in the S&P index. You get capital gains if stocks go up in price, and you get dividend distributions as well.

"If you look at the results of Standard and Poor's 500 stocks over the past five years," says John Slatter of Hickory Investment Advisors, in Cleveland, "you see that an investment of $10,000 would now be worth around $21,000." Very few mutual funds can beat that rate of growth.

Management charges for SPIDERS are low because there is no need for hiring stock analysts. It's all automatic.

"SPIDERS are traded on the American Stock Exchange the same as any other stock," says exchange spokesman Richard Mikaliunas, "but the individual stocks in the S&P 500, of course, are traded on the [New York and NASDAQ] exchanges as well."

You can buy SPIDERS through stock brokers the same way you would buy stocks, by placing an order and paying a commission. You can also buy shares in mutual funds, sold by Fidelity, Vanguard, Dreyfus, and United Services, that have only S&P 500 stocks in their portfolios.

Although the mutual funds do not charge commissions on purchases, they do assess annual management fees.

Brokers say that you have more trading flexibility with SPIDERS than you have with mutual-fund shares. You can make hedge bets, sell short, and do all kinds of trading tricks you can't do with mutual-fund shares. Of course, like other stocks, SPIDERS are better-suited for investors satisfied with long-term results rather than for those seeking quick gains. ■

PHOTO: OREN TOUCHTON—FOLIO, INC.

If you want long-term results *rather than quick gains in the stock market, consider SPIDERS—securities that track all 500 stocks in the Standard & Poor's index.*

CREDIT CARDS

Investment Incentives Tied To Amounts Charged

The competition among credit-card issuers is intensifying. First, they waged a rate war. Now they're offering "investment" incentives linked to the amount of money you charge.

General Motors, Ford, General Electric, AT&T, and other companies came out with their own credit cards to promote their products and services as well as to make money on credit balances.

"We've evolved beyond the pricing issue to value-added incentives," says MasterCard spokesman Steven Apesos, "and this continuing competition is good for consumers."

Aside from the rebates on cars, telephone calls, and other products and services, card issuers are looking at linking customer charges to such things as investments in annuities and savings accounts.

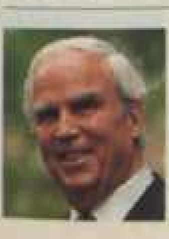
The first to take this tack in a big way is NationsBank, one of the five largest banks in the country, with $132 billion in assets, with its START program. Every time you charge something on a START MasterCard or Visa, 1 percent of the amount is invested in a tax-deferred annuity.

If you also buy products and services from START's list of participating vendors (such as MCI, Jos. A. Bank Clothier, Nautilus, Hertz, and Club Med), you can add up to 6 percent more to your investment credits.

Sound like a good deal? It may be for some people, but not for everyone. "The interest rate you pay on these so-called investment cards is often way too high," says Marybeth Butler, a spokesperson for Bankcard Holders of America, a consumer organization. The interest rate on some cards is 16 percent or higher.

"These cards are great," says Butler, "if you always pay off all of your charges currently." But most consumers don't; some 70 percent are always enmeshed in revolving credit, paying interest on thousands of dollars a year. "These people," Butler says, "can save a lot more money by shopping for a low-interest card than they can with a higher-interest, investment-related card."

You can get a current list of low-interest credit-card rates (and cards that have no annual fees) by calling Bankcard Holders of America at 1-800-327-7300. For $4, you get a list of around 50 banks offering cards with interest rates as low as 6.9 percent. ■



Peter Weaver is a Washington-based columnist on personal finance.

REAL ESTATE

Looking For A Mortgage? It Can Pay To Shop Around

PHOTO: SCHUCK SWAGE—THE STOCK MARKET

Before signing *on the dotted line for a new or refinanced mortgage, shop around.*

With interest rates at their lowest level in two decades, many people are considering refinancing their mortgages or are looking for a new home and mortgage. And although a major amount of money is involved, they may approach just one or two lenders because they don't have the time or expertise to shop around.

If you're one of those potential borrowers, do the shopping. "It's a borrower's market," says Peter Miller, author of *The Common Sense Mortgage* (HarperCollins), "and there are a lot of lenders out there competing for your business."

By all means, if you have a business account, trust account, or other important relationship with a bank, try that place first. You may get special treatment—or you may not. You won't know, however, until you've shopped the marketplace.

Because mortgage shopping can be difficult and time-consuming, you might enlist the help of a mortgage broker, who may represent 20 or more lenders from all over the country.

"You not only shop for the best rate and the best terms, you shop for a lender who will suit your special needs," says Diane Cook, vice president of the Bethesda-Chevy Chase Mortgage Corp., in Maryland. For example, one lender might offer a great rate but, because you're self-employed, insist that you put up more money or take less of a loan. "You may not have a very good income profile," says Cook, "because you're taking money out of your company as a return of capital."

In such a case, she says, "I look for lenders that will give you a no-income-verification loan." The lender might charge a rate that's somewhat higher than the others, but you're able to save considerable money over your current mortgage or the mortgage that is offered for a new home.

A mortgage broker can also prepare borrowers so they can qualify for the right loan. "Before we even start looking," says Cook, "I have prospective borrowers get an up-to-date credit report." If there are any clinkers in the report, she explains, they can be cleared up before a lender can use them to delay the process or turn you down.

"A mortgage broker only gets one shot at your business," says Peter Miller, "so he or she has a big incentive to go out and find the best possible deal for you."

You can find mortgage brokers and other lenders in the Yellow Pages under "Mortgages." ■

ESTATE PLANNING

Trusts For Your Children Must Be Designed Carefully

"Part of the responsibility of being a parent is to deal with our own passing," says attorney Don Silver, author of *A Parent's Guide to Wills and Trusts* (Adams-Hall Publishing).

We may work out intricate wills and trusts that adequately cover our spouses—present and former—but do not include adequate protection for our children.

For example, if you and your spouse divorce, you might have assets divided up as part of the settlement and then bequeath your share outright to your children. But if a child should die after you, will he or she have been old enough and responsible enough at the time of death to have handled the decisions on what to do with the inheritance?

What if a child dies after you and doesn't have a spouse or children? It's quite possible that your former spouse could inherit the assets.

By setting up a special trust and keeping it updated, you can make sure that your children or their children get the assets.

If you leave assets to a child in your will, he or she might be presented with a large amount of money and be tempted to waste it on excessive travel or other purchases. "With a trust," Silver says, "you can dole out the property at certain ages, such as at 25, 30, and 35."

If you have several children, it may not be fair to give all of them equal inheritances. One child may be handicapped or much younger than the others and thus need more financial support. "In this case," Silver says, "you might want to set up a family trust so that the trustee can release funds to the children as their specific needs occur."

Once you've set up a will with a backup trust, you can't just put it away and forget about it. "The biggest mistake people make with wills and trusts is . . . that they don't update them," says attorney Stephen Leimberg, professor of taxation and estate planning at the American College, a Bryn Mawr, Pa., school specializing in finance subjects. After a death or divorce, he says, you may remarry and acquire stepchildren or new children of your own with the new spouse.

Leimberg recommends updating a will under these circumstances:

■ When a child is born, adopted, or comes into the family as a stepchild.

■ When you marry, divorce, separate, or become a widow or widower.

■ When you move to another state.

■ When there's a significant change in income or wealth.

■ When there's a major change in tax laws.

In such circumstances, you may want to change the beneficiaries, the amounts involved, and the executor or trustee. Silver also suggests you "update the named beneficiaries in other estate-planning instruments, such as joint-tenancy accounts, insurance policies, and pension plans."

For professional advice on these complicated matters, consider getting help from an estate-planning attorney, a tax specialist, or perhaps an investment adviser.

(For more information on trusts, see For Your Tax File, on Page 79.) ■

TRAVEL

Protecting Your Mileage Awards From Slipping Out Of Date

At first, airlines offered frequent fliers unlimited mileage awards. Then they began applying expiration dates. If you put your mileage statements or coupons in a drawer or in your briefcase and forgot about them, you could lose your valuable free-trip awards by missing the expiration date.

To solve this expiration-date, award-loss problem, you can now get a form of insurance called AwardExtender; it's offered by *Inside Flyer*, a magazine for frequent fliers. "Once you have been on the books for six months or more," says Randy Petersen, the magazine's publisher, "your mileage awards can be extended past any of the airlines' expiration dates." AwardExtender will pay for your award round trip, but you must stay over at least one Saturday night.

Along with AwardExtender, you get delayed-baggage protection, a subscription to *Inside Flyer*, and the 1993 *Frequent Flyer Guide Book*. The cost is $159 a year. For more information, call 1-800-487-8893.

"Another option," says Ed Perkins, editor of *Consumer Reports Travel Letter*, "is to keep on top of your expiration dates and give away awards you can't use to family and friends." NB

For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

RECORD KEEPING

Saving Tax Records: Which Ones, And How Long

How long must you keep your old tax records?

Although there are no hard and fast answers, there are some rules of thumb you can follow.

Generally, bills and other written records should be kept for six years. The statute of limitations on tax assessments (or the period after which the Internal Revenue Service can no longer question a return) is generally three years after the return was filed. But if the taxpayer has understated gross income on the return by 25 percent or more, the statute of limitations is six years.

There are numerous exceptions to the time limits, however. For example, if you had any transactions that may prompt an IRS allegation of fraud, you should keep all those records indefinitely, or at least until you are cleared in a tax examination. If the return was fraudulent, there is no statute of limitations.

Tax returns themselves, as distinguished from the supporting information, should never be thrown away. They constitute evidence—sometimes the only evidence—that you did in fact file a return.

Also, if you were not required to file a tax return, keep the records backing up that decision indefinitely, since the statute of limitations does not close unless a return is filed. Many practitioners recommend filing a return even if no return is due, to help eliminate the record-keeping burden.

PHOTO: ©TERRY WILD STUDIO

Tax records *can present storage problems. Be prudent about pruning them, however.*

Records relating to the cost of acquiring or improving property you own, such as your home, should be retained at least until you sell the property. In some instances, however, you should keep the records longer. For example, if the sale involves a tax-free rollover, in which you sell your principal residence and buy another one, the records should be retained until there is an ultimate disposition of the most recently purchased house with no additional rollover.

When you are carrying forward net operating losses, which can be carried forward 15 years, you should retain all your records supporting those losses and the records for all subsequent years, up to the time the losses are used or until they expire.

For proof of payment, the IRS generally requires canceled checks, but it has ruled that the bank statement itself will be satisfactory proof if it shows the check number, the amount of the check, the date the bank posted the check to the account, and the name of the payee.

Be cautious, though, about throwing away checks. In certain cases regarding questions about employment taxes, fraud, or money laundering, the IRS may need to review the checks' endorsements, date stamps, or other data. ■

ESTATE PLANNING

Use The Magic Words To Minimize The Tax Bite

You may want to consider a "bypass" trust as an estate-planning tool. A recent court ruling, however, adds a new twist.

Consider first how an estate is taxed in the absence of such a trust: A husband and wife are each worth $600,000, and in their wills, each leaves all assets to the other. If the husband dies first, his estate gets a marital deduction for the full amount left to his wife, and there is no estate tax. Upon the wife's death, her estate would have $1,200,000 of assets. The estate could apply the wife's $600,000 lifetime exemption, but the remaining $600,000 would be subject to an estate tax of about $235,000.

Suppose, however, the husband in his will had set up a "bypass" trust for the $600,000, providing that all the income of the trust would be distributed to his wife and that after her death everything would go to their children. The husband's $600,000 would bypass the wife's estate and not be included for estate-tax purposes. Thus, her estate would amount to only $600,000, thereby eliminating any estate tax, saving some $235,000.

Many husbands and wives want to build in more flexibility so the bypass trust can provide for the surviving spouse by making the spouse trustee and allowing distribution of principal as well as income. If the trust sets up and follows a measurable standard, such as providing that principal can be distributed for the surviving spouse's "maintenance, education, support, or health," it could not be included in her estate. These "magic words" are the safest to use because they along with some others are used in the Internal Revenue Code and estate-tax regulations.

But extreme caution is advisable here. Striving for a little extra flexibility for the trustee by adding terms broader than the magic words can be a big mistake. In a recent Tax Court case, *Estate of Vissering vs. Commissioner*, the will allowed the beneficiary as co-trustee to distribute trust principal as "required for [the beneficiary's] continued comfort, support, maintenance, and education." The court determined that "comfort" was not a measurable standard and included the entire amount of the trust in the beneficiary's estate. This cost the estate an additional $700,000 in estate taxes.

If your will and/or living trusts are not limited to the magic words "maintenance, education, support, and health," check with your attorney. NB

Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

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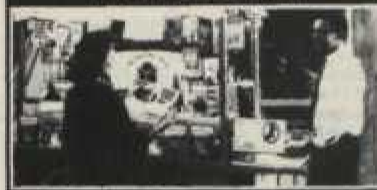

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POLL RESULTS

Views On Training And Education

Tax incentives would be preferable to mandated spending to help train workers, say respondents to our Where I Stand poll.

By Joan Szabo

Education and workplace training continue to be important to small-business owners, who often have difficulty finding the qualified workers they need. But most readers responding to a poll in the February *Nation's Business* said tax breaks would be preferable to federally mandated spending by companies to finance additional worker training.

The nation's companies already spend an estimated $30 billion a year training their workers.

Readers expressed their views on training and education in response to questions posed in Where I Stand, a monthly feature that seeks opinions on major issues affecting small firms. Results of the poll are sent to top officials in the White House and Congress.

Plugging the skills gap is a top priority for the Clinton administration. The president sees a highly skilled work force as vital to economic growth. Well-trained workers are regarded as a major incentive to encourage domestic and foreign firms to open facilities in this country.

The administration believes that a top-notch work force, with its potential for increased productivity, will offset any perceived advantage for U.S. companies in going abroad in search of cheaper labor.

A sizable 70 percent of all respondents to the poll on worker training said that to improve such efforts, the federal government should offer tax breaks to companies for their training costs. Twenty-six percent said they would prefer to see the federal government foster business and labor cooperation. Only 4 percent of those responding said that Washington should require firms to spend a certain percentage of payroll on training.

PHOTO: T. MICHAEL KEZA

Worker-training *costs should be offset by tax breaks for firms, most poll respondents said.*

More than half of respondents voted against establishment of a national apprenticeship program to help train young people not bound for college, while 36 percent favored the idea. President Clinton has proposed setting up such a program, which would be similar to the German apprenticeship system, to better prepare young people for the workplace. When he was governor of Arkansas, Clinton established a state youth-apprenticeship program.

Many European nations have successful youth apprenticeship programs, but it is the German system, with its origins in the 500-year-old crafts guilds of the Middle Ages, that has attracted the greatest amount of interest and attention in the United States.

Concerning college loans, 47 percent said not every American should have the right to borrow federal funds to attend college. But 44 percent favored such a guarantee.

When such loans are made, said 62 percent of the respondents, public service should be an option along with more traditional repayment plans.

In regard to training high-school dropouts, who often lack the skills needed to land jobs in today's high-tech workplace, nearly half of the respondents said they did not think a national program should be established to help them acquire marketable skills. ■

WORKER TRAINING

To improve employee training, the federal government should:	1. Require firms to spend a certain percentage of payroll on training	**4%**
	2. Offer tax breaks to companies for training costs	**70%**
	3. Foster business and labor cooperation on training	**26%**
Should the federal government establish a national apprenticeship system for young people not bound for college?	1. Yes	**36%**
	2. No	**53%**
	3. Undecided	**11%**
Should every American have the right to borrow federal funds for college?	1. Yes	**44%**
	2. No	**47%**
	3. Undecided	**9%**
Should federal college loans be repayable through public service as well as through more traditional repayment plans?	1. Yes	**62%**
	2. No	**32%**
	3. Undecided	**6%**
Should a national program be established to help high-school dropouts acquire marketable skills?	1. Yes	**43%**
	2. No	**46%**
	3. Undecided	**11%**

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

How To Appease Your Knees

Picture a round ball sitting on a flat surface, held in place by rubber bands. Now imagine that you use that ball during virtually every waking activity. The odds of its wearing out will seem high.

That ball is the knee joint; the rubber bands holding it in place are ligaments, muscles, and tendons. Normal walking involves subjecting your knee joint to force equal to six times your body weight—a 150-pound man applies 900 pounds of pressure to his knees with every step. Yet by its very design, the knee lacks inherent stability, making it highly vulnerable to injury.

An estimated 50 million Americans suffer from knee pain. Each year, more than a million people undergo knee surgery to remove torn cartilage, the elastic connective tissue that covers and protects the ends of bones. And once the knee has been hurt, the chances of re-injuring it increase.

"The knee wasn't built for the types of activities we subject it to, like football, basketball, tennis, and step aerobics," says James M. Fox, attending surgeon at the Southern California Orthopedic Institute in Van Nuys, and author of *Save Your Knees* (Dell Publishing).

"People get into trouble because they don't prepare themselves for an activity," he says. "The time to get in shape for a sport is three months ahead of time, but many people try to get ready for their company's softball team by stretching right before the game starts."

The most common knee injuries are tendinitis, which is an inflammation of the soft tissues, or tendons, that surround the knee joint; and chondromalacia (literally, "cartilage wear"), an irritation or blistering, usually on the undersurface of the kneecap. Both conditions can arise either from overuse (for example, going on a 20-mile bike ride instead of your usual two miles) or exercising on a harder-than-usual surface.

The best way to head off knee trouble is to build up the muscles that support the knee. "Just as the guide wires on a sailboat relieve stress on the mast, the muscles on the front and back of the leg, known as quadriceps and hamstrings, respectively, take pressure off the knee joint," says Fox. The key is developing appropriate muscle strength and endurance.

Nadine M. Fisher, clinical assistant professor of rehabilitation medicine at the State University of New York at Buffalo, conducted a research study with people ages 20 to 80 who had osteoarthritis of the knee. In younger patients, the problem was mainly due to sports injuries; in older people, to general wear and tear.

Fisher's program began with simple isometric exercises (contracting a muscle and holding it tightly for a brief period) and progressed to full resistance training, targeting the quadriceps and hamstring muscles. After several months, 90 to 95 percent of participants had less pain and increased functional capacity, she says. "Once you've gained sufficient strength in your muscles and want to maintain it, a good exercise is climbing up and down flights of stairs."

Although the vast majority of knee problems can be managed successfully with a good rehabilitation program that includes strengthening, conditioning, and possible changes in footwear, a small percentage of people with irreparable cartilage damage may be candidates for surgery. Eugene M. Wolf, an orthopedic surgeon with California Pacific Medical Center in San Francisco, says: "Removing the cartilage is like taking the shock absorber out of your car. It's only a question of time before you start seeing uneven wear on your tires. If you lose your cartilage at a young age and continue to be active, by the time you're 40-something you can have a painful arthritic knee."

Until recently, surgery to remove torn cartilage was the best option for people with severely worn "shocks." Now, a new approach is shifting the emphasis from cartilage removal to repair.

Cartilage transplants using frozen tissue from cadavers are currently being performed by a handful of orthopedic surgeons around the country, including Wolf. "This is preventive surgery to halt degeneration of the knee," says Wolf.

Wolf recalls that "a 30-year-old woman who had injured her knee in a skiing accident had cartilage-transplant surgery 18 months ago. Recently, I looked at the inside of her knee using an arthroscope [a cameralike surgical instrument that illuminates the inside of a joint] for the first time since the operation, and her knee looked completely normal. She no longer has pain. She's playing tennis." **NB**

Marcia J. Pear is a writer specializing in health issues and principal of Pear Communications, a marketing communications firm in San Francisco.

The knee *is vulnerable to injury, as experience and diagnostic images show.*

Editorial

NAFTA: Growth Opportunity For Small Business

President Clinton's commitment not to renegotiate the North American Free Trade Agreement (NAFTA) and to seek its implementation as scheduled next Jan. 1 is welcomed by everyone aware that U.S. economic health is increasingly dependent on foreign trade.

Congress should now pass the legislation needed to put the agreement into force.

The issue is of major importance to U.S. small businesses, and they should urge their members of Congress to support the agreement.

NAFTA is a tremendous opportunity for the United States. It will expand already booming exports to Mexico, thereby creating jobs at home. The side agreements on environmental and labor issues now being negotiated by representatives of the three countries should help the Clinton administration gain increased congressional support for the agreement.

The stakes are enormous. NAFTA would forge a U.S.-Canada-Mexico unified market of 360 million people with a total annual output of $6.5 trillion in goods and services.

Commercial ties among the three nations are already strong—Canada and Mexico are this country's largest and third-largest trading partners, respectively.

Those trading relationships would expand significantly under NAFTA to the benefit of all three nations. U.S. trade officials note that last year 700,000 U.S. jobs depended on this country's merchandise exports to Mexico, and that number will exceed 1 million by the end of next year.

Every job directly supported by U.S. exports to Mexico is backed by two additional jobs in supporting industries. And every $1 billion increase in exports to Mexico will create 19,000 more jobs in the United States.

The U.S. Chamber of Commerce, which has been in the forefront of business efforts supporting the agreement, points out these advantages for smaller firms:

■ Mexico's smaller economy—1/20th the size of the U.S. economy—and lack of a mature distribution system would make it easier for small U.S. firms to do business in Mexico.

■ Removal of all Mexican tariffs on U.S. goods (50 percent immediately and 98 percent by 2004) and Mexican customs user fees by 1999 would enable U.S. small businesses to export to Mexico more cheaply than before.

■ Mexico would open its 2,000-mile border and interior zones to U.S. trucks for the first time. This would lower shipping costs for small businesses and make the Mexican market an ideal venture for first-time exporters.

■ A special working group would be created to give small businesses access to government procurement contracts. U.S. construction-services firms would gain access to the Canadian procurement market for the first time. Small-business "set-asides" in all three nations would be preserved.

■ The elimination of trade barriers would enable U.S. companies based in Canada or Mexico to rely on their established U.S.-based suppliers, many of which are small firms that cannot afford to set up additional operations outside the U.S.

■ Rules of origin would require inclusion of more North American-made components in automobiles, textiles, and other items. This could boost NAFTA-wide sales for smaller U.S. suppliers of parts.

PHOTO: ELISA GUINONES–BLACK STAR

The flow of goods *between the U.S. and Mexico would increase dramatically under the North American Free Trade Agreement.*

NAFTA represents an historic achievement for the United States, Canada, and Mexico as we seek to stimulate economic growth through reduced trade barriers between our nations.

Nevertheless, opponents are using scare tactics that have no basis in fact to attempt to dissuade Congress from voting to put NAFTA into effect.

If the U.S. fails to implement the agreement, it will set in motion events that not only would slow economic recovery and job creation but also would undermine this country's ability to negotiate pro-U.S. trade agreements with other countries around the world.

The bottom-line result would be less economic growth and fewer opportunities for U.S. companies to do business.

Small-business owners should help make their members of Congress aware of the tremendous opportunities that would be created with the implementation of this agreement. NB

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By Janet L. Willen

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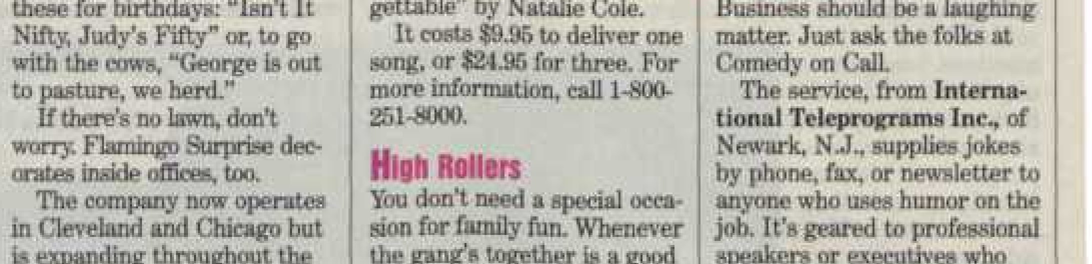

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It costs $9.95 to deliver one song, or $24.95 for three. For more information, call 1-800-251-8000.

High Rollers

You don't need a special occasion for family fun. Whenever the gang's together is a good time to roll the dice—"21" Lawn Dice, that is.

Manufactured by **Sterling Enterprises,** of Santa Barbara, Calif., the outdoor, family game consists of eight black-and-white oversized dice and two neon orange target rings.

Throw a die into the ring and get the number of points showing. The first person to reach 21 wins.

No gambling with these dice, though. The game's creator, Horicon, Wis., Police Lieutenant John Klapper, may be watching.

The game costs $29.95. For more information, call 1-800-688-DICE.

Catch As Catch Can

More family fun comes from **Beyond Design,** of Los Angeles. The manufacturer's Woblong is a flying toy that looks like two brightly colored plastic elliptical rings twisted together.

Beyond Design calls the toy a "double-wing flier" and says it produces a "strobe-like pulsating visual effect" in flight. Anyway, it's fun.

The Woblong costs between $5.95 and $7.95.

For more information, call 1-800-962-5664.

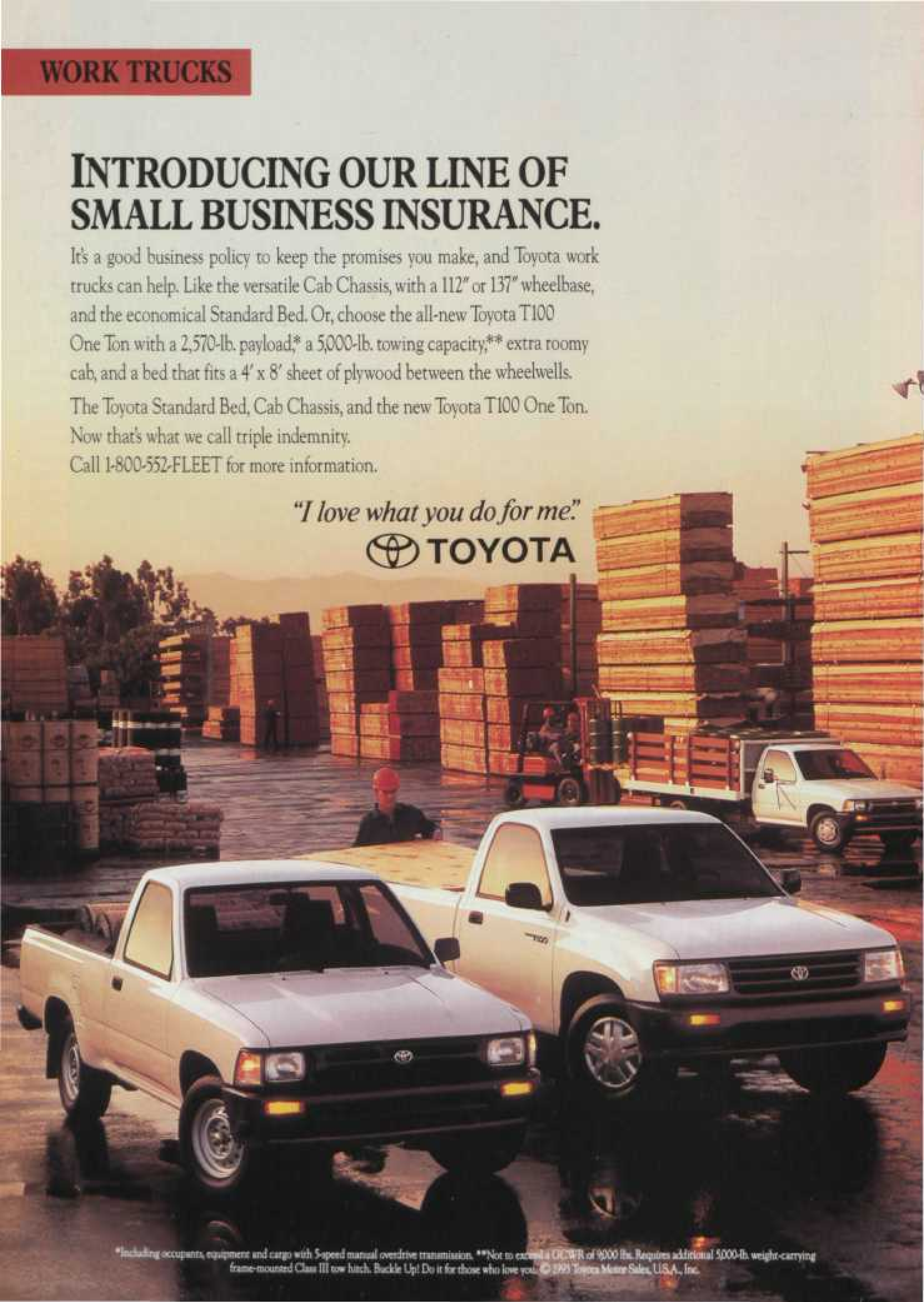
No Kidding

Business should be a laughing matter. Just ask the folks at Comedy on Call.

The service, from **International Teleprograms Inc.,** of Newark, N.J., supplies jokes by phone, fax, or newsletter to anyone who uses humor on the job. It's geared to professional speakers or executives who need a joke as an icebreaker for a speech.

Topical gags are the heart of the service. Professional writers update the tape at least daily. Their aim, says writer John McBride, is to "beat Jay Leno to the punch line."

Several user plans are available depending upon whether you're a frequent or an occasional user or whether you have a subscription for daily faxes or a biweekly newsletter. For more information, call 1-800-929-4269.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